Play

Corus Entertainment Inc. Annual Report 2006

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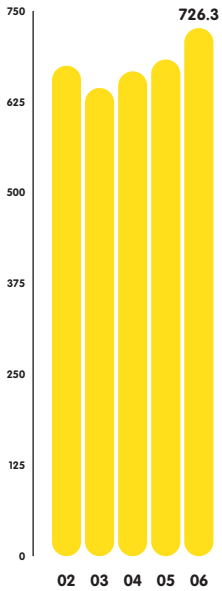
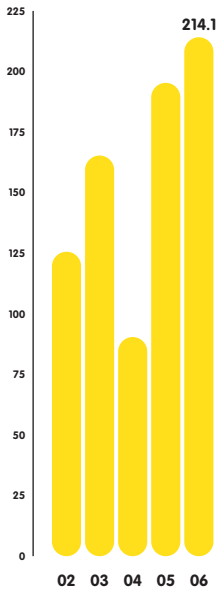
Revenues

(in millions)



Segment profit

(in millions)



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Financial highlights

(millions of Canadian dollars except per share amounts)	**2006**	2005	2004	2003	2002
REVENUES	**726.3**	683.1	666.8	643.9	674.5
SEGMENT PROFIT [1]	**214.1**	195.3	90.4	165.3	125.6
NET INCOME (LOSS)	**35.5**	71.1	(23.1)	40.0	(168.6)
EARNINGS (LOSS) PER SHARE					
Basic	**$0.84**	$1.66	$(0.54)	$0.94	$(3.96)
Diluted	**$0.82**	$1.65	$(0.54)	$0.94	$(3.96)
Total assets	**1,842.2**	1,928.4	1,871.9	1,940.6	1,940.0
Total long-term financial liabilities	**650.5**	660.4	690.9	693.5	761.3
CASH DIVIDENDS DECLARED PER SHARE					
Class A Voting	**$0.4525**	$0.065	$0.04	–	–
Class B Non-Voting	**$0.4650**	$0.075	$0.05	–	–

[1] As defined in "Key performance indicators – Segment profit and segment profit margin" in management's discussion and analysis.

Like a great game, a great year is marked by four quarters filled with amazing plays. And in 2006, Corus Entertainment had a great year.

Corus Radio remained Canada's number one radio network in terms of both audience reach and tune-in. Specialty channels YTV, Treehouse and W Network were all number one with their respective target audiences. Nelvana demonstrated the international strength of its brands when it struck a deal to launch a new kids channel in the U.S.

The year was capped by a truly outstanding achievement: In 2006, thanks to the hard work of our employees and partners, and the support of our customers, Corus Entertainment enjoyed record-high revenues and segment profit.

A great way to end a year of great plays.

Great plays in Television

Movie Central is where fans of HBO's *Entourage* can catch the latest episode of this hit comedy series about a group of buddies sharing the highs and lows of life in the Hollywood fast lane.

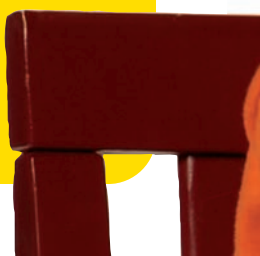
By developing original series like *The Smart Woman Survival Guide* and *This is Emily Yeung* and making savvy programming decisions that reflect our audiences' interests, Corus gives viewers plenty of reasons to press play.

No broadcaster entertains more Canadian kids than Corus Entertainment. Through YTV, Treehouse, Discovery Kids and TELETOON, we reach 93% of kids aged two to 11 and broadcast 16 of the top 20 kids programs. In 2006, kids hits *Dora the Explorer*, *Max & Ruby*, *SpongeBob SquarePants* and *6TEEN* were joined by new shows such as *Elmo's World*, *Captain Flamingo*, *Jane and the Dragon* and *Di-Gata Defenders*. On YTV, we also added family favourites such as *Malcolm in the Middle* and *The Fresh Prince of Bel-Air*. The range and quality of programming we offer makes Corus networks kid-favoured and parent-approved destinations.

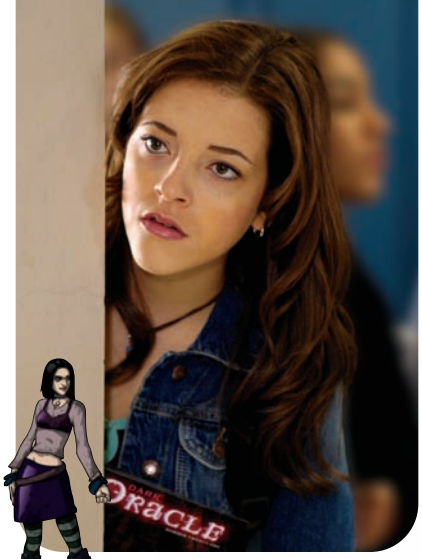
Corus is tops with Canadian women, too. Compelling series like *Divine Design*, *Gilmore Girls* and *Style by Jury*, and movies such as *Legally Blonde 2*, *Mona Lisa Smile* and *Two Weeks Notice*, have made W Network the country's number one specialty channel for women, with an average of almost 11 million viewers a month.

Corus Entertainment is also a leader in pay television. Movie Central provides viewers in Western Canada with top Hollywood movies, Canadian feature films and series and the best-rated programs from HBO and Showtime. In 2006, we added HBO programming to our video-on-demand service, Movie Central On Demand.

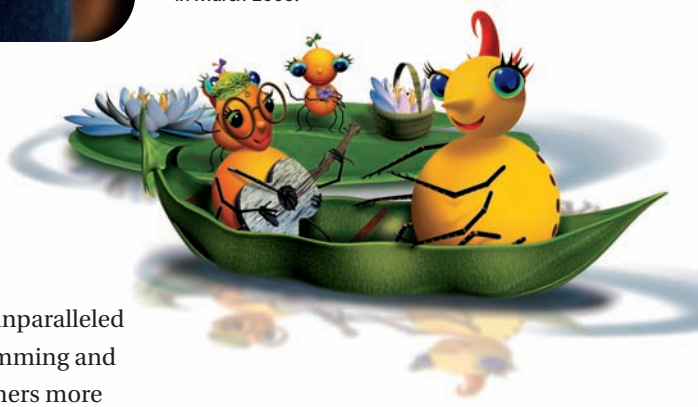
Inspired by the W Her Report research, *The Smart Woman Survival Guide* is an innovative half-hour show that combines the best elements of the lifestyle and sitcom genres into a brand-new format.



Combining live action with animation to create an exciting and distinctive look, YTV's *Dark Oracle* was awarded an International Emmy in the *Children and Young People* category.



Based on the bestselling books by David Kirk, Nelvana's stunning 3-D animated series *Miss Spider's Sunny Patch Friends* debuted on Treehouse in March 2006.



Launched on Treehouse in fall 2006, *This is Emily Yeung* features Emily hosting her very own show for preschool children.

By providing an unparalleled level of programming and giving customers more control over their viewing schedules, Movie Central increased its subscribers by 10%.

In addition to YTV, Treehouse, Discovery Kids, TELETOON, W Network and Movie Central, our television assets include CMT Canada, The Documentary Channel, SCREAM, Telelatino, Corus Custom Networks, Max Trax digital music service and three local over-the-air television stations. With strong brands, a commitment to research, innovative marketing and great programming, Corus really did give audiences plenty of reasons to press play in 2006.

Country superstar Reba McEntire stars in the hilarious family sitcom *Reba,* seen on CMT.

Radio's winning plays

Corus Entertainment is the clear leader in Canadian radio. With 51 stations, primarily in nine of Canada's top 10 markets, Corus Radio reached 8.3 million people in 2006. On average, Canadians tuned in to Corus radio stations 46% more often than those of our nearest competitor.

Corus' 16-station news-talk network plays an integral role in the cities it serves. Each station provides an interactive forum for discussing and debating the issues that matter most to the community, while delivering local news, sports, weather and traffic. In 2006 our major market news-talk stations launched a helicopter traffic service that helped improve local traffic and news reporting, and contributed to community safety by making those helicopters available to police, fire and medical services for emergencies.

MANITOBA'S INFORMATION CJOB 68 SUPERSTATION

Winnipeg's CJOB 68 became the fifth Corus news-talk station to celebrate a 60th anniversary.

Also in 2006, Winnipeg's CJOB 68 celebrated two remarkable achievements: It became the fifth Corus news-talk station to mark a 60th anniversary, and its daily talk show *Adler on Line* was syndicated nationally to 14 cities across Canada.

And as always, Corus radio stations contributed to their communities by donating millions of dollars in cash, gifts-in-kind and public service announcements to local and national charities.

Throughout 2006 we continued to deliver exceptional client service

Far left: Liam Gallagher of Oasis fame with staff from Deep Sky and Corus Radio Toronto. Gallagher was in-studio for the unveiling of Oasis' new album, *Don't Believe the Truth*, as part of Deep Sky's World Album Premiere series.

The Tragically Hip's Gord Downie with *The Jeff O'Neil Show* morning team in 99.3 The FOX's mobile studio, broadcasting live from downtown Vancouver.

Number one in audience reach and tune-in, and a leader in both community and client service, Corus Radio keeps making the winning plays.

Q107 Toronto's morning man John Derringer with Meat Loaf, in-studio to promote his new CD, *Bat Out of Hell 3*.

by honouring our Corus Radio Sales Guarantee and our Corus Radio Sales Professional Code of Ethics. Deep Sky, our national marketing and programming arm, raised our level of client service by building vertically integrated client campaigns which leveraged the power of our national network. Our commitment to client service helped deliver a 6% increase in sales and a 50% growth in our stations' online advertising business.

With a commitment to informing and entertaining our audiences, delivering best-in-class service to our clients, and giving back to the communities we serve, Corus Radio continues to make the winning plays.

Deep Sky partnered with MindShare Canada on a promotional campaign for the theatrical release of 20th Century Fox's *Walk the Line*. A lucky winner received a rare Martin guitar – one of only 12 in the world – modelled after one of Johnny Cash's favourite guitars.

Breakout plays in Content

Nelvana continued to build strong brands and provide engaging animated programming for children around the globe. This year, Nelvana closed more than 380 broadcast deals in 133 countries and drove merchandising, home video and new platform plans in key markets.

In June, Nelvana enhanced its reputation as a 3-D pioneer when *Jane and the Dragon* won the prestigious Banff World Television Award for *Best Animated Program*. It also expanded its library of great 3-D programs to include second seasons of *Miss Spider's Sunny Patch Friends* and *The Backyardigans*.

Complementing its strong stable of preschool shows, Nelvana produced a slate of new programs with diversified offerings covering the boys-action, tween-girls and six-to-11-year-old demographics. *Di-Gata Defenders*, *Ruby Gloom* and *Grossology* all showcase the strong characters, solid storylines and exceptional animation for which Nelvana is renowned.

Launched in Canada on TELETOON in August 2006, *Di-Gata Defenders* was developed fully in-house at Nelvana.

***The Backyardigans'* second season launched in 2006 along with co-ordinated merchandising and home entertainment programs in key territories.**

Seen on YTV, *Jane and the Dragon*, a co-production with New Zealand-based Weta Workshop, recounts the coming-of-age tale of a 13-year-old apprentice knight and her best pal, Dragon.

Launched in Canada on YTV and Discovery Kids in fall 2006, *Grossology*'s Ty and Abby Archer solve the grossest crimes imaginable.

As the happiest girl in the world, *Ruby Gloom* is an ironic comedy that emphasizes the importance of friendship and celebrates people's differences.

2006 was a year of breakout plays for Nelvana. It continued to market its stable of world-class brands internationally, strengthened its reputation as a leader in 3-D animation, built an even more robust, diversified slate of shows and forged several groundbreaking partnerships.

2006 was a year of important partnerships for Corus Entertainment and Nelvana. Joining NBC Universal, ION Media Networks, Scholastic and Classic Media/ Big Idea, Corus Entertainment provided Nelvana's programming for qubo, a new U.S.-based multi-platform television network for children. Launching on NBC, Telemundo and the i Network, with plans that include a 24-7 digital broadcast channel, video-on-demand and a branded website, our partnership in qubo demonstrates the value of Nelvana's content in international markets.

Nelvana also announced an inventive partnership that will see an unprecedented synchronized worldwide launch for a television series, licensed toys and merchandise. In co-operation with Spin Master Ltd., Sega Toys, TMS Entertainment and Japan Vistec, Nelvana plans to launch a new boys-action franchise called *Bakugan*. The partners will work together to create an immersive entertainment experience, one with depth and long-term potential, that includes a robust, branded website, promotional programs and special retail events to leverage the combined appeal of the series and the toys.

Heather A. Shaw
Executive Chair

John M. Cassaday
President and Chief Executive Officer

At Corus Entertainment we understand the power of play.

FELLOW SHAREHOLDERS: In 2006, we once again enjoyed a successful year. We achieved our financial targets, delivering new all-time highs in revenues and segment profit. We also saw our share price increase by 20% to $38.63. We thank our 3,000 employees, whose hard work resulted in a very successful year for Corus Entertainment.

At $726 million, our revenues for the year were the highest achieved by our Company to date, with a consolidated segment profit of $214 million, up 10%. Our free cash flow rose 16% to over $93 million and net income was $35.5 million with basic earnings per share of $0.84. Corporately, we made a number of strategic moves in 2006 to increase our flexibility to utilize free cash and increase total return to shareholders. We successfully restructured our long-term debt, increased our declared annual cash dividend from $0.10 to $0.86 per share and repurchased over one million Class B shares.

Our employees worked together to make the plays that delivered outstanding results. We met our segment profit target, exceeded our cash flow target, delivered the highest revenues and segment profit in our history and achieved a 20% increase in our share price.

All divisions played a role in our Company's success:

Television

By every measure, our Television division delivered strong results in 2006. Revenues for the year were $393 million, up 11%, and segment profit was up 17%. Our increased investment in programming contributed to across-the-board ratings increases and advertising and subscriber revenue growth. Double-digit advertising growth from YTV, CMT, W Network, TELETOON and Telelatino led to an overall advertising growth of 13%. Movie Central's subscriber numbers were up 10%, contributing to a division-wide subscriber revenue growth of 10%. From an audience ratings perspective, W Network, YTV and Treehouse led the way, holding number one positions in each of their respective target demographics.

Radio

Corus Entertainment continued to be Canada's leading radio operator with an audience reach of 8.3 million people and an audience tune-in number that was 46% higher than our nearest competitor. Revenues for the year were $268 million, up 6%, while segment profit was down 1% to $68 million. Above-average revenue growth was experienced in the western markets of Vancouver, Calgary and Winnipeg. And while the Québec market provided some challenges in 2006, we believe our strong assets are competitively positioned for growth in 2007.

Content

With a plan to produce fewer episodes, revenues for the Content division were down 12% to $72 million for the year, while segment profit was up 56% to $5.6 million. The division also delivered positive cash flow for the year and demonstrated the value of Nelvana's animation content in international markets when we joined NBC Universal, ION Media Networks, Scholastic and Classic Media/Big Idea to create the new U.S.-based multi-platform television network qubo. Launched on NBC, Telemundo and the i Network, qubo's future plans include a 24-7 digital broadcast channel, video-on-demand service and a branded website.

Looking ahead

As we look to 2007, we see continued strength in our core businesses. We will also continue to explore new opportunities like the Internet and other interactive platforms as a way to extend the reach and impact of our brands. We are confident we can continue to deliver superior financial results that drive shareholder value. Our financial goals for 2007 are clear:

- Consolidated segment profit of between $230 million and $240 million
- Free cash flow of between $85 million and $100 million

We will continue to implement the strategic plans developed for all our business units to ensure that we exceed the expectations of our audiences and advertising clients. We know that to accomplish this we will, at times, need to make tough decisions. In the first month of fiscal 2007, we announced the realignment of our Television and Content divisions, including the consolidation of our pay television business, Movie Central, into our Toronto origination centre. Changes such as these are never easy, but are necessary to ensure our long-term success. This move allowed us to create a new Lifestyle, Drama and Movies portfolio, encompassing Movie Central, W Network, CMT and SCREAM. This new portfolio will enable us to maximize efficiencies across these high-growth assets and invest in integrated strategies and new platform initiatives.

We also announced the vertical integration of Nelvana Studios into our Television division, the closure of our London and Los Angeles offices, and the creation of Nelvana Enterprises, a business unit that will focus on broadcast sales, new platform opportunities and consumer products licensing for all Corus brands in international markets. The primary objective of these changes is to ensure we are properly structured and resourced so our television and content assets continue to be leaders on all current and future distribution platforms.

As we look to 2007, we see continued strength in our core businesses. We will also continue to explore new opportunities like the Internet and other interactive platforms as a way to extend the reach and impact of our brands. We are confident we can continue to deliver superior financial results that drive shareholder value.

Our audiences, particularly our younger audiences, increasingly expect more choice regarding when content is available, how they can access it and the platform it is delivered on. Our results to date in the new platform world have already put us in a leadership position in many areas:

- Corus Radio currently has almost twice as many unique visitors to its websites than our nearest competitor;
- Our kids websites teletoon.com and YTV.com are the number one ranked Canadian kids entertainment sites in Canada and English Canada, respectively;
- Treehouse Direct is the first service in Canada to offer preschool programming downloads;
- Corus continues to be a leader in video-on-demand (VOD) and subscription video-on-demand (SVOD).

While the majority of our efforts and resources will continue to remain focused on our core businesses, we will take a managed and strategic approach to extending our brands onto new platforms.

We are confident that we have an excellent collection of assets, talented and committed employees and are well positioned to deliver another strong financial year in fiscal 2007. We would like to thank you, the shareholders of our Company, for your continued support.

John M. Cassaday
President and
Chief Executive Officer

Heather A. Shaw
Executive Chair

The play makers

No matter how simple or how smart the play may seem, to make it succeed, you need hard-working, talented people. At Corus Entertainment, whatever the challenge, we know we can depend on our employees to make the play.

John Cassaday with the 2006 Samurai Award winners. The winners are nominated by their co-workers for their exceptional contributions and their commitment to Corus Entertainment's Core Values.

Employees who make things happen are crucial to our success, and Corus Entertainment is committed to building a workforce that is diverse, dedicated and highly skilled. We are equally committed to creating a culture that promotes learning and recognizes superior performance.

Established in 2003, Corus University provided over 4,500 hours of training to over 480 participants in fiscal 2006. Ninety per cent of employees polled agreed that the Company's investment in an in-house education and training program sent a strong message about Corus' commitment to furthering the development of employees, while 78% agreed that Corus U helped them become better managers.

We also believe that recognizing individual and team excellence energizes all our employees. Each year, our Samurai and President's Awards are given to individuals and workgroups who have delivered superior results and demonstrated their commitment to our Core Values of Teamwork, Innovation, Initiative, Accountability and Knowledge.

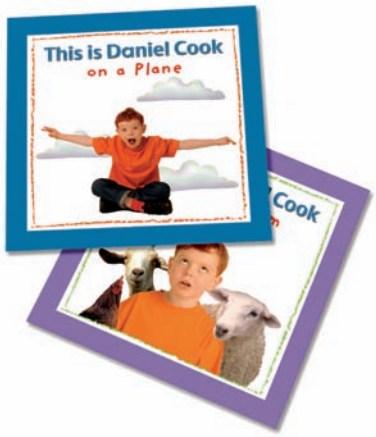
Knowing that the creative abilities of our employees are also a critical component of our success, we introduced the Creative Spark Award in 2006. Our specialty network branding, award-winning children's books, internationally recognized animation, radio promotions and community outreach programs all speak to the number of exceptionally creative people who work at Corus, and the new award acknowledges their contributions.

By focusing on creating the most innovative content for our audiences, developing win-win relationships with our partners and driving revenue while managing costs, our employees make the winning plays that deliver outstanding results.

Heather Shaw and John Cassaday with some of the 2006 Creative Spark Award winners. Peer-nominated, these awards acknowledge creative spirit, technical innovation and teamwork.

Playing up our great

Canadian talent



An original Canadian production developed and broadcast by Treehouse, *This is Daniel Cook* expanded into a book series published by Kids Can Press.

Opposite: *The Wilkinsons*, a CMT Original Production, provides a slightly twisted and often hilarious behind-the-scenes look at life on the road and at home for this Canadian musical family.

By identifying the strongest projects, the best creative teams and the most talented artists, then collaborating to achieve a shared vision, Corus Entertainment and its partners are working together to play up Canadian talent.

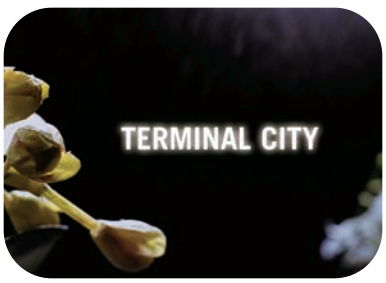
When it comes to outstanding Canadian talent and programming, Corus plays an important supporting role. *Away From Her*, *Fido*, *Slings & Arrows*, *G-Spot*, *This is Daniel Cook* and *The Wilkinsons* are all examples of the high-quality Canadian feature film and television programming Corus helps create.

The rest of the world is also watching Canadian talent. In 2006, Movie Central's *ReGenesis* and *Terminal City* and YTV's *Jane and the Dragon* all received Banff World Television honours, while *Dark Oracle*, co-produced with YTV, was recognized with an International Emmy Award. Corus is proud to have been an important part of so many award-winning projects.

The Corus Radio division is a strong supporter of Canadian talent through initiatives such as the Canadian Artists Selected by You (CASBY) Music Awards, Edgefest and Canada Day Jam. Always looking out for the "next big thing" in Canadian music, The New Country 95.3, CISN Country 103.9 and Country 105 held their third annual country talent competition. While in Vancouver, 99.3 The FOX held its 28th annual FOX Vancouver Seeds independent music competition, awarding a demo-recording deal, management consulting and cash for tour support to up-and-coming band YUCA.

In 2006, Nelvana, a leader in developing quality programming for preschoolers, kids and teens, produced 107 half-hours of animated entertainment. Kids Can Press, a distinguished publisher of Canadian books for children, released 69 new titles.

***Slings & Arrows*, a Gemini Award–winning miniseries on Movie Central, gives viewers a backstage pass to the misadventures of the New Burbage Theatre Festival.**



Movie Central's *Terminal City* won critical acclaim and was a Banff World Television Hors Concours selection.

In 2006, YUCA was chosen as the 99.3 The FOX Vancouver Seeds Program Platinum Award winner.

The new fields of play

Not only is Corus Radio number one in audience reach and tune-in, we are also online leaders. Corus Radio websites have nearly twice as many unique visitors as our next largest competitor. With news, personality blogs, exclusive content and loyalty programs, our radio station websites enhance our on-air brands, strengthening our relationships with listeners through expanded content on the Internet.

We have taken a strategic approach to extending our television brands as well. With YTV.com, teletoon.com, treehousetv.com and discoverykids.ca, we reach more Canadians online than any other Canadian kids entertainment websites. Corus' engaging, family-friendly websites extend our kids brands by offering a wide range of exclusive content including games, educational activities, video streaming and talent video blogs.

Corus continues to play a leading role in the VOD and SVOD arena with on-demand offerings for Movie Central, YTV Anime, YTV Vortex, Treehouse and The Documentary Channel. Treehouse On Demand is one of our most popular services, with nearly one million views per month.

In 2006 our Nelvana content enjoyed increased momentum on new platforms. *Jacob Two-Two* debuted on America Online's KOL and Treehouse Direct launched as Canada's first download service for preschool programs. Leveraging both the Treehouse brand and top-rated Nelvana programs such as *Rolie Polie Olie*, *Little Bear* and *Franklin*, the service also offers content from Corus' independent production partners.

No matter which platform our audiences choose, Corus Entertainment will be there when they press play.

When it comes to enjoying content, consumers expect more choice. They want more choice about when it is available, how they can access it, and the platform it is delivered on. With new business models and distribution channels, Corus Entertainment is taking a focused and strategic approach to meeting these expectations and to extending the reach and impact of our brands.

Rolie Polie Olie is just one of the top-rated Nelvana titles available on Treehouse Direct.

teletoon.com was the number one rated Canadian kids entertainment website in 2006.

YTV.com was the number one rated Canadian kids entertainment website in English Canada, and had over 23 million unique game plays in 2006.

With 50 radio station sites, including 42 with streaming audio, Corus Radio websites averaged approximately 1.6 million unique visitors each month in 2006.

Corus Entertainment and our employees are committed to giving back to the communities we serve. In 2006, through cash donations, products, airtime and volunteer hours, that commitment meant millions of dollars to over 400 charitable organizations. By serving those in need, we're helping to create a more level playing field.

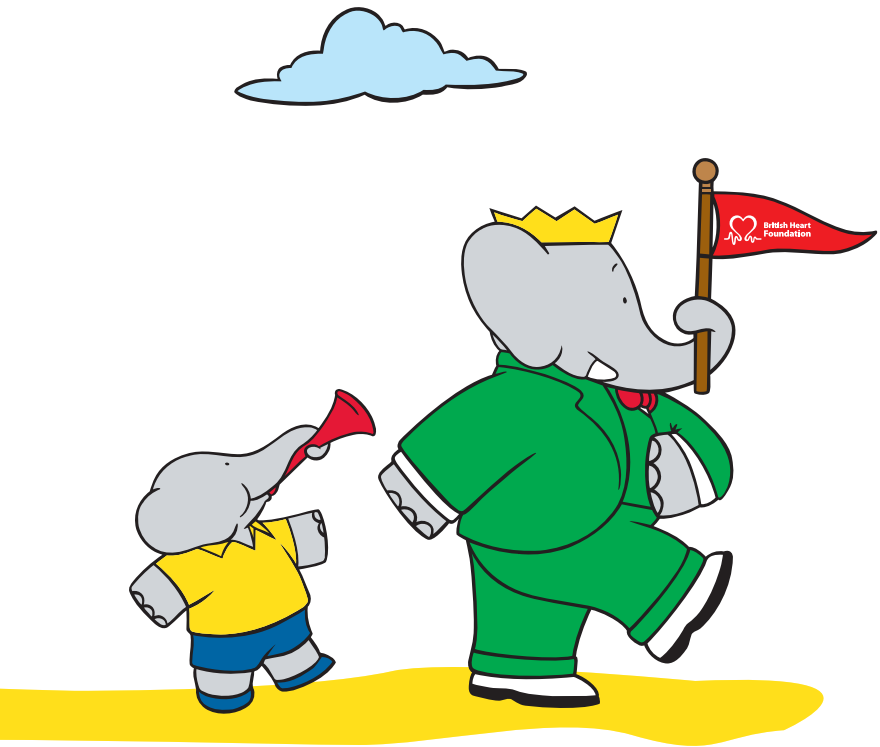
We are proud of the culture of giving that exists at our Company. Each year, we support worthwhile causes such as Kids Help Phone, Boys and Girls Clubs of Canada, the Starlight Starbright Children's Foundation and the Canadian Breast Cancer Foundation. The longstanding tradition of community support at our radio stations was demonstrated this year with events like CKNW's Orphans' Fund pledge day, 630 CHED's Santas Anonymous, John Derringer's 13 Days of Christmas at Q107 and the Rock 101 Cares for Kids Radiothon.

With a corporate focus on charities that help women and children, Corus is a proud founding sponsor of Kids Up Front – "one little ticket, one big lift." Kids Up Front creates shared family experiences, improves the quality of life and helps build disadvantaged children's self-esteem by providing them and their families with tickets to cultural and sporting events. In just six years, the organization has provided over 260,000 tickets worth over $6.2 million. As a sponsor for this year's Shelter from the Storm fundraising campaign by the Canadian Women's Foundation, Corus and its employees helped raise over $700,000 to support women's shelters across the country.

Our annual United Way campaign is a particular source of pride. Each year we set a Company-wide goal, and this year our employees showed their commitment not only to the charity but to our Core Value of Teamwork by surpassing our goal and increasing leadership-level donations ($1,000 or more) by 30%.

Driven by a desire to make a difference, our giving bolsters employee pride and improves the lives of thousands in our communities.

Levelling the playing field



In 2006, Nelvana's beloved Babar helped with fundraising efforts for the British Heart Foundation.

Corus Entertainment is a proud founding sponsor of Kids Up Front, an organization that helps build disadvantaged children's self-esteem by providing them and their families with tickets to cultural and sporting events.

In 2006 the Company created the Corus Citizenship Award to recognize, encourage and support Corus employees who dedicate their time and resources to serving our communities. This year's winner, Leigh Naturkach, is pictured with Heather Shaw and John Cassaday.

In April 2006, W Network teamed up with The Royal Canadian Mint and *Chatelaine* to launch the campaign Creating a Future without Breast Cancer. With the production of a newly minted pink ribbon coin, inspirational stories on W Network and in *Chatelaine*, and a five-hour block of special programming on W, the campaign raised awareness and funds for this worthy cause. Hundreds of Corus employees joined the fight by participating in run/walks throughout the year. Montréal's Q92 radio team (above) and W Network's team were just a few groups that participated.

Financial section

Management's discussion and analysis of the financial position and results of operations for the fiscal year ended August 31, 2006 is prepared at October 31, 2006. This should be read in conjunction with the Company's August 31, 2006 annual report and audited consolidated financial statements and notes therein.

The financial information presented herein has been prepared on the basis of Canadian generally accepted accounting principles ("GAAP"). Please refer to note 21 of the consolidated financial statements of the Company for a summary of differences between Canadian and United States ("U.S.") GAAP.

All dollar amounts are in Canadian dollars unless otherwise indicated.

Cautionary statement regarding forward-looking statements

To the extent any statements made in this report contain information that is not historical, these statements are forward-looking statements within the meaning of applicable securities laws. These forward-looking statements are related to, among other things, our objectives, goals, strategies, intentions, plans, estimates and outlook and can generally be identified by the use of words such as "believe," "anticipate," "expect," "intend," "plan," "will," "may" and other similar expressions. In addition, any statements that refer to expectations, projections or other characterizations of future events or circumstances are forward-looking statements. Although Corus believes that the expectations reflected in such forward-looking statements are reasonable, such statements involve risks and uncertainties and undue reliance should not be placed on such statements. Certain material factors or assumptions are applied in making forward-looking statements and actual results may differ materially from those expressed or implied in such statements. Important factors that could cause actual results to differ materially from these expectations include, among other things: our ability to attract and retain advertising revenues; audience acceptance of our television programs and cable networks; our ability to recoup production costs, the availability of tax credits and the existence of co-production treaties; our ability to compete in any of the industries in which we do business; the opportunities (or lack thereof) that may be presented to and pursued by us; conditions in the entertainment, information and communications industries and technological developments therein; changes in laws or regulations or the interpretation or application of those laws and regulations; our ability to integrate and realize anticipated benefits from our acquisitions and to effectively manage our growth; our ability to successfully defend ourselves against litigation matters arising out of the ordinary course of business; and changes in accounting standards. Additional information about these factors and about the material assumptions underlying such forward-looking statements may be found in our Annual Information Form. Corus cautions that the foregoing list of important factors that may affect future results is not exhaustive. When relying on our forward-looking statements to make decisions with respect to Corus, investors and others should carefully consider the foregoing factors and other uncertainties and potential events. Unless otherwise required by applicable securities laws, we disclaim any intention or obligation to publicly update or revise any forward-looking statements whether as a result of new information, events or circumstances that arise after the date thereof or otherwise.

Overview

Corus Entertainment Inc. ("Corus" or the "Company") commenced operations on September 1, 1999. On that date, pursuant to a statutory plan of arrangement, Corus was separated from Shaw Communications Inc. ("Shaw") as an independently operated, publicly traded company and assumed ownership of Shaw's radio broadcasting, specialty television, digital audio services and cable advertising services businesses, as well as certain investments held by Shaw.

Corus manages its business in three operating segments: Radio, Television and Content. Generally, Corus' financial results depend on a number of factors, including the strength of the Canadian national economy and the local economies of Corus' served markets, local and national market competition from other broadcasting stations and other advertising media, government regulation, market competition from other distributors of children's animated programming and Corus' ability to continue to provide popular programming.

(a) Radio

The Radio segment comprises 51 radio stations situated primarily in nine of the ten largest Canadian markets by population, and in the densely populated area of Southern Ontario. Revenues are derived from advertising aired over these stations. Corus is Canada's leading radio operator in terms of audience reach and tune-in.

(b) Television

For fiscal 2006, the Television segment is composed of the following: specialty television networks YTV, W Network, Treehouse TV, Corus' 80% interest in Country Music Television Limited ("CMT"), 50.5% interest in Telelatino, 40% interest in TELETOON and 20% interest in Food Network; Corus' premium television services Movie Central and Encore Avenue; interests in three digital television channels, SCREAM, Discovery Kids Canada and The Documentary Channel; Corus Custom Networks, a cable advertising service; three local television stations; and Max Trax, a residential digital music service. Revenues for specialty television networks and digital television channels are generated from affiliate subscriber fees and advertising. Revenues for premium television and digital music services are generated from affiliate subscriber fees. Revenues for the conventional television stations and cable advertising services are derived from advertising. For fiscal 2007, Television's interest in TELETOON has increased to 50%, and the Content production studio has been absorbed.

(c) Content

For fiscal 2006, the Content segment consists of the production and distribution of television programs and the sale and licensing of related products. Revenues are generated from licensing of television programs, merchandise licensing and publishing. For fiscal 2007, the production studio has been integrated into the Television segment.

Annual selected financial information

The following table presents summary financial information for Corus for each of the listed years ended August 31:

				% Increase (decrease)	
(millions of Canadian dollars except percentages and per share amounts)	**2006**	2005	2004	2006 over 2005	2005 over 2004
REVENUES	**726.3**	683.1	666.8	6.3	2.4
SEGMENT PROFIT [1]	**214.1**	195.3	90.4	9.6	116.1
NET INCOME (LOSS)	**35.5**	71.1	(23.1)		
EARNINGS (LOSS) PER SHARE					
Basic	**$0.84**	$1.66	$(0.54)		
Diluted	**$0.82**	$1.65	$(0.54)		
Total assets	**1,842.2**	1,928.4	1,871.9		
Total long-term financial liabilities	**650.5**	660.4	690.9		
CASH DIVIDENDS DECLARED PER SHARE					
Class A Voting	**0.4525**	0.065	0.04		
Class B Non-Voting	**0.4650**	0.075	0.05		

[1] As defined in "Key performance indicators – Segment profit and segment profit margin."

Highlights for fiscal 2006

Operations

- Revenue increased by 6% to $726 million in fiscal 2006.
- Segment profit increased by 10% to $214 million in fiscal 2006.
- Segment profit margins were 30% in 2006 compared to 29% in 2005.
- Television delivers double-digit segment profit growth.
- Radio experiences above average growth in Western Canada.
- Content continues to deliver positive cash flow.

Financial

- Free cash flow of $94 million, up 16% from 2005.
- Successful refinancing of long-term debt and Normal Course Issuer Bid.
- Corus increases quarterly dividend for holders of its Class A and Class B shares to $0.2125 and $0.215, respectively.

Regulatory

- The Canadian Radio-television and Telecommunications Commission ("CRTC") renewed several licenses, including: YTV Canada Inc.; Corus specialty and pay services; and a variety of radio station licenses.

Highlights for fiscal 2005

Operations

- Revenue from operations increased by 2% to $683 million in 2005.
- Segment profit increased by 116% to $195 million in 2005.
- Segment profit margins were 29% in 2005 compared to 14% in 2004.
- Television delivers double-digit segment profit growth.
- Corus Radio outperforms market growth in 2005.
- Corus Radio enters one of the top ten markets in Canada in Québec City.
- Content continues to deliver positive cash flow.

Financial

- Free cash flow of over $80 million, up 54% from 2004.
- Adjusted net debt reduced to $466 million from $546 million at August 31, 2004.
- Adjusted net debt to adjusted segment profit reduced to 2.4 from 3.1 at August 31, 2004.
- Corus increases semi-annual dividend for holders of its Class A and Class B shares to $0.045 and $0.05, respectively.

Regulatory

- Corus secured CRTC approval to swap five radio stations located in Québec with Astral Media Inc. ("Astral") for eight radio stations also located in that province.

Results of operations

The following tables present summary financial information for Corus' operating business segments and a reconciliation of net income (loss) to segment profit for each of the listed years ended August 31:

(millions of Canadian dollars except percentages and per share amounts)	**2006**	**%** [1]	2005	% [1]	2004	% [1]	% Increase (decrease) 2006 over 2005	% Increase (decrease) 2005 over 2004
REVENUES								
Radio	**268.4**	**36.9**	252.7	37.0	227.9	34.2	6.2	10.9
Television	**393.3**	**54.2**	354.2	51.9	332.3	49.8	11.0	6.6
Content	**72.1**	**9.9**	82.3	12.0	112.6	16.9	(12.4)	(26.9)
Eliminations	**(7.5)**	**(1.0)**	(6.1)	(0.9)	(6.0)	(0.9)		
	726.3	**100.0**	683.1	100.0	666.8	100.0	6.3	2.4
DIRECT COST OF SALES, GENERAL AND ADMINISTRATIVE EXPENSES								
Radio	**200.0**	**74.5**	183.7	72.7	167.9	73.7	8.9	9.4
Television	**229.1**	**58.3**	213.4	60.2	207.2	62.4	7.4	3.0
Content	**66.5**	**92.2**	78.7	95.6	196.3	174.3	(15.5)	(59.9)
Corporate	**24.0**	**3.3**	18.6	2.7	11.0	1.6	29.0	69.1
Eliminations	**(7.4)**	**(1.0)**	(6.6)	(1.0)	(6.0)	(0.9)		
	512.2	**70.5**	487.8	71.4	576.4	86.4	5.0	(15.4)
SEGMENT PROFIT (LOSS) [2]								
Radio	**68.4**	**25.5**	69.0	27.3	60.0	26.3	(0.9)	15.0
Television	**164.2**	**41.7**	140.8	39.8	125.1	37.6	16.6	12.5
Content	**5.6**	**7.8**	3.6	4.4	(83.7)	(74.3)	55.6	(104.3)
Corporate	**(24.0)**	**(3.3)**	(18.6)	(2.7)	(11.0)	(1.6)	29.0	69.1
Eliminations	**(0.1)**	**–**	0.5	0.1	–	–		
	214.1	**29.5**	195.3	28.6	90.4	13.6	9.6	116.0
Depreciation	**21.3**	**2.9**	23.7	3.5	25.7	3.9	(10.1)	(7.8)
Amortization	**2.9**	**0.4**	4.6	0.7	7.3	1.1	(37.0)	(37.0)
Interest on long-term debt	**43.1**	**5.9**	55.6	8.1	55.3	8.3	(22.5)	0.5
Debt refinancing loss	**132.0**		–		–			
Other expense (income), net	**11.6**		(5.5)		(5.0)			
Income before income taxes and non-controlling interest	**3.2**		116.9		7.1			
Income tax expense (recovery)	**(36.0)**		42.8		26.9			
Non-controlling interest	**3.7**		3.0		3.3			
NET INCOME (LOSS) FOR THE YEAR	**35.5**		71.1		(23.1)			

[1] Direct cost of sales, general and administrative expenses and segment profit for each business segment are expressed as a percentage of revenues for the segment. Other items are expressed as a percentage of total revenues.

[2] As defined in "Key performance indicators – Segment profit and segment profit margin."

Fiscal 2006 compared to fiscal 2005

Revenues for fiscal 2006 were $726.3 million, up 6% from $683.1 million last year. Radio and Television experienced increases of 6% and 11%, respectively, while Content was down 12% compared to the prior year.

Direct cost of sales, general and administrative expenses were $512.2 million, up 5% from $487.8 million in the prior year. Expense increases in Television were a result of higher revenues, while increases in Radio were a result of the integration of the new stations in Québec. Expenses at Content decreased as a result of lower revenues, while Corporate expenses increased as a result of stock-based compensation and costs incurred in the process of continually improving its infrastructure and controls.

Segment profit for fiscal 2006 was $214.1 million, up 10% from $195.3 million last year. The Radio segment profit of $68.4 million was down 1% from the prior year, reflecting disappointing results in Québec. The Television division's segment profit of $164.2 million represented a segment profit growth of 17%. The Content division generated segment profit of $5.6 million, an increase of 56% over the prior year. Segment profit as a percentage of revenues for the year ended August 31, 2006, was 30% compared to 29% in fiscal 2005.

Radio

Radio revenues for the year were $268.4 million, up 6% from the prior year. Local and national airtime sales each increased by 5% while interactive and other revenues also increased. According to the Trans-Canada Radio Advertising by Market ("TRAM") report for the year ended August 31, 2006, Corus stations generated advertising growth of 5.5%, compared to total market growth of 6.5%. Above average growth was experienced in the western markets of Vancouver, Calgary and Winnipeg. Although fiscal 2006 was a challenging year in major markets like Toronto and Montréal, where Corus' growth did not keep pace with the market average growth, Corus Radio believes that its assets continue to be competitively positioned to take advantage of the strong advertising market.

Direct cost of sales, general and administrative expenses for the year were $200.0 million, up 9% from last year, mainly due to increased investments in new media and programming content, principally related to professional hockey which was unavailable last year and contributed approximately $2.6 million in costs in the current year. In addition, expenses related to the integration of the recently acquired Québec stations are higher than management's expectations and this combined with lower than anticipated revenue growth has had a negative impact on results for the year.

Segment profit for the year was $68.4 million, 1% lower than the prior year. Segment profit margin for the year was 25%, down from 27% last year. During the year Corus Radio incurred $4.2 million in expenses related to restructuring costs primarily in Western Canada. These costs are reflected in other expense (income), net.

Television

Television revenues for the year were $393.3 million, up 11% over last year. Revenue growth was driven by advertising growth of 13% and subscriber growth of 10% for the year. Subscriber revenues for the year include subscriber fee adjustments of $4.7 million. Excluding these items, subscriber revenue growth for the year was 7%. The strong advertising results were driven by double-digit growth in YTV, CMT, W Network, TELETOON and Telelatino. Specialty advertising growth for the year was 14%, while total revenues from local and other television properties grew by 5% over the prior year. Subscriber revenue growth was driven by Movie Central, which finished the year with 822,000 subscribers, up 10% from 748,000 at August 31, 2005. The Company attributes this increase to successful marketing campaigns surrounding high-profile HBO programming, including *Rome* and the sixth season of *The Sopranos*, which launched in March 2006.

Direct cost of sales, general and administrative expenses were $229.1 million for the year, up 7% from the prior year. The increase was primarily due to higher programming costs, as amortization of program rights increased by 10% over the prior year. These costs fluctuate in proportion to changes in subscriber levels, as a result of program supply agreements, and Canadian content requirements based on the prior year's revenues, as a result of conditions of license. These increased costs were offset by effective cost containment in other general and administrative overhead, which increased by 2% over the prior year, due to higher marketing costs as well as bad debt expense incurred in the current year.

Segment profit for the year of $164.2 million represented a 17% increase over the prior year. Segment profit margin was 42%, up from 40% last year.

Content

Content revenues for the year were $72.1 million, a decrease of 12% from the prior year. During fiscal 2006, Content delivered 107 completed episodes, compared to 111 episodes in the prior year. The decrease in revenues from the prior year was due to the decline in *Beyblade* revenues towards the end of fiscal 2005. The *Beyblade* decline is not likely to reverse and merchandising revenues will not return to the levels of the past few fiscal years until new brands come on line. Included in Content's revenues for the year are intercompany revenues of $7.1 million. These revenues are eliminated upon consolidation.

Direct cost of sales, general and administrative expenses for the year were $66.6 million, down 15% from the prior year. The decrease reflects ongoing diligence in expense control, as well as lower film amortization and third party participation costs that fluctuate in proportion to revenues. In fiscal 2006 Content incurred $6.7 million in expenses related to the restructuring of the Toronto studio and the closure of foreign offices. These costs are reflected in other expense (income), net.

Segment profit for the year was $5.6 million, up from $3.6 million last year. The Content division continues to perform in line with the Company's expectations.

Corporate

The Corporate segment results represent the incremental cost of corporate overhead in excess of the amount allocated to the other operating divisions. Corporate overhead in fiscal 2006 was $24.0 million, up from $18.6 million in 2005. Stock-based compensation expenses increased to $11.6 million in fiscal 2006 from $6.8 million last year. This increase reflects the impact of Corus' higher average share price in fiscal 2006 on expenses related to the Company's Performance Share Units ("PSUs"), as well as an additional year of expensing stock options. Other general and administrative costs increased to $12.4 million in fiscal 2006 from $11.8 million last year. This increase relates primarily to the increased cost of information technology and costs associated with implementing the requirements of the *Sarbanes-Oxley Act* and new Canadian securities standards.

Depreciation

Depreciation expense for the year was $21.3 million, a decrease of $2.4 million from last year. This decrease reflects a lower capital cost base, particularly in the Television division, and continues a trend reflecting lower capital expenditures in that division in recent years.

Amortization

Amortization expense for fiscal 2006 was $2.9 million, down from $4.6 million in fiscal 2005. The decrease is a result of certain deferred start-up and reformatting costs becoming fully amortized, as well as the write-off in the second quarter of deferred financing costs associated with the Senior Subordinated Notes ("Notes"). The write-off of these costs has been recorded as a component of the debt restructuring loss. The remaining deferred start-up costs of $0.4 million will be fully amortized in fiscal 2007, while $5.3 million in deferred financing charges relating to the new bank facility is being amortized over the remaining life of the facility.

Interest on long-term debt

Interest expense for the year was $43.1 million, down from $55.6 million last year. The Company refinanced its debt at the end of January 2006, with the result that the Notes, which paid interest at an effective rate of 9.33%, were replaced with bank debt paying interest on a floating rate plus a margin. Interest rate swap agreements fix the interest rate at 4.13% plus a margin on $400.0 million of the bank debt for the full term of the facility. The effective interest rate for fiscal 2006 since the refinancing was 5.2% on bank debt, compared to 9.1%, primarily on the Notes, in the prior year.

Debt refinancing loss

In the second quarter of fiscal 2006, the Company purchased and cancelled U.S.$373.6 million of its Notes. Concurrently, the cross-currency agreements which fixed the exchange rate on the principal and interest on the Notes were effectively terminated. In order to fund the purchase of the Notes, the Company amended its credit facility with a syndicate of banks. These transactions resulted in the Company recording a pre-tax debt refinancing loss of $132.0 million in the second quarter. The components of this loss include mark-to-market payments on the cross-currency agreement terminations, consent and tender premiums, the non-cash write-off of deferred financing charges related to the Notes, and other fees. The after-tax impact of these transactions was approximately $1.95 per share.

Other expense (income), net

Other expense for the year was $11.7 million, representing a decrease of $17.2 million from income of $5.5 million in the prior year. The current year includes severance-related restructuring charges of $4.2 million incurred in the Radio segment and $6.7 million incurred in the Content segment. The prior year included foreign exchange and derivative gains of $3.3 million and $4.4 million, respectively. The financial instruments which gave rise to these gains were terminated in fiscal 2005 so there is no corresponding impact in fiscal 2006. In addition, the prior year includes a realized contingent consideration gain of $4.1 million, a broadcast license impairment of $4.1 million and the retroactive portion of a performing rights tariff increase in the amount of $3.8 million.

Income taxes

Income tax recovery for the year was $36.0 million on income before taxes of $3.2 million. Fiscal 2006 was positively impacted by approximately $37.0 million in long-term future tax rate changes and other items as described in note 15 to the audited consolidated financial statements.

Net income

Net income for the year was $35.5 million, down $35.6 million from $71.1 million last year. Earnings per share for the year were $0.84 basic and $0.82 diluted, compared with basic and diluted earnings per share of $1.66 and $1.65, respectively, in fiscal 2005. The after-tax impact of the debt refinancing transaction in fiscal 2006 was a loss of approximately $1.95 per share.

Fiscal 2005 compared to fiscal 2004

Revenues for fiscal 2005 were $683.1 million, up 2% from $666.8 million in fiscal 2004. Radio and Television experienced increases of 11% and 7%, respectively, while Content was down 27% compared to fiscal 2004.

Direct cost of sales, general and administrative expenses were $487.8 million in fiscal 2005, down 15% from $576.4 million in fiscal 2004. The fiscal 2004 results include a writedown in film investments of $85.0 million. Excluding the writedown, direct cost of sales, general and administrative expenses experienced a 1% decrease.

Segment profit for fiscal 2005 was $195.3 million, up 116% from $90.4 million in fiscal 2004. The Radio division achieved segment profit of $69.0 million, an increase of 15%. The Television division's segment profit of $140.8 million represented a segment profit growth of 13%. The Content division generated segment profit of $3.6 million, after incurring a loss of $83.7 million in the prior year. Segment profit as a percentage of revenues for fiscal 2005 was 29% compared to 14% in fiscal 2004.

Radio

Radio revenues for fiscal 2005 were $252.7 million, up 11% from fiscal 2004, as Corus stations were well positioned to take advantage of a strong advertising market. This growth was experienced across Canada, and in both local and national advertising. According to the TRAM report for the year ended August 31, 2005, Corus stations generated advertising growth of 11.3%, compared to total market growth of 8.7%.

Direct cost of sales, general and administrative expenses for fiscal 2005 were $183.7 million, up 9% from fiscal 2004, mainly due to higher variable costs such as commissions and copyright fees, as well as higher on-air talent compensation costs and Québec integration costs.

Segment profit for fiscal 2005 was $69.0 million, 15% higher than fiscal 2004. Segment profit margin for fiscal 2005 was 27%, up from 26% in fiscal 2004. Segment profit for fiscal 2005 includes the $2.6 million negative impact of the tariff rates imposed by the Copyright Board for 2005. The retroactive portion for fiscal years 2003 and 2004 of $3.8 million was reflected in other expense (income), net.

Television

Television revenues for fiscal 2005 were $354.2 million, up 7% over fiscal 2004. Advertising and subscriber revenues increased in fiscal 2005 by 9% and 5%, respectively, with Movie Central, Corus' western-based pay television service, finishing the year with 748,000 subscribers, up 6% from 707,000 at August 31, 2004. Specialty advertising revenues grew 13% over fiscal 2004.

Direct cost of sales, general and administrative expenses for fiscal 2005 were $213.4 million, up 3% from fiscal 2004. The increase was primarily due to higher cost of sales and higher variable costs associated with higher revenues. Amortization of program and film rights, included in cost of sales, increased as a result of a higher proportion of blockbuster movies acquired at Movie Central. These increased costs were offset by effective cost containment in general and administrative overhead.

Segment profit for fiscal 2005 was $140.8 million, up 13% from fiscal 2004. Segment profit margin was 40%, up from 38% in fiscal 2004.

Content

Content revenues for fiscal 2005 were $82.3 million, a decrease of 27% from fiscal 2004. Revenues were down for the year primarily due to the decline in *Beyblade* revenue in both broadcast sales and licensing. Included in Content's revenues for fiscal 2005 was $6.1 million in intercompany revenues, unchanged from fiscal 2004. These revenues are eliminated upon consolidation.

Direct cost of sales, general and administrative expenses for fiscal 2005 were $78.8 million, down 60% from fiscal 2004. In the third quarter of fiscal 2004, the Content division recorded an $85.0 million writedown of its film investments. Excluding the writedown, direct cost of sales, general and administrative expenses were down 29%, reflecting lower cost of sales associated with lower revenues.

Segment profit for fiscal 2005 was $3.6 million, up from a loss of $83.7 million in fiscal 2004. The Content division continued to perform in line with the Company's expectations.

Corporate

The Corporate segment results represent the incremental cost of corporate overhead in excess of the amount allocated to the other operating divisions. Corporate overhead in fiscal 2005 was $18.6 million, up from $11.0 million in fiscal 2004. Stock-based compensation expenses increased to $6.8 million in fiscal 2005 from $3.0 million in fiscal 2004. This increase reflected the impact of Corus' higher average share price in fiscal 2005 on expenses related to the Company's PSUs, as well as an additional year of expensing stock options. Other general and administrative costs increased to $11.8 million in fiscal 2005 from $8.0 million in fiscal 2004. This increase related primarily to the increased cost of information technology and implementation costs associated with implementing the requirements of the *Sarbanes-Oxley Act*.

Depreciation

Depreciation expense for fiscal 2005 was $23.7 million, a decrease of $2.0 million from $25.7 million in fiscal 2004. This change reflected a lower capital cost base due to reduced capital expenditures and existing assets becoming fully amortized.

Amortization

Amortization expense for fiscal 2005 was $4.6 million, down from $7.3 million in fiscal 2004. The decrease was a result of certain deferred pre-operating costs and radio reformatting costs becoming fully amortized.

Interest on long-term debt

Interest expense for fiscal 2005 was $55.6 million, up from $55.3 million in fiscal 2004 primarily due to lower savings generated by a fixed-to-floating interest rate swap in fiscal 2005 compared to fiscal 2004. The effective interest rate for fiscal 2005 was 9.1% compared to 8.6% in fiscal 2004. This increase reflected a higher ratio of fixed debt in fiscal 2005 as the Company repaid its floating rate bank loans in the first quarter of that year.

Other income, net

Other income for fiscal 2005 was $5.5 million, compared to $4.9 million in fiscal 2004. Fiscal 2005 included net derivative transaction gains of $4.4 million, foreign exchange gains of $3.3 million, realized contingent consideration gains of $4.1 million, a broadcast license impairment of $4.1 million and the retroactive portion of a performing rights tariff increase in the amount of $3.8 million, while fiscal 2004 included net derivative transaction gains of $1.0 million and foreign exchange gains of $2.2 million.

Income taxes

The effective tax rate for fiscal 2005 was 36.6%, compared to the statutory rate of 35.4%. This difference reflected the geographical allocation of the Company's taxable income and the non-deductibility of stock-based compensation.

Net income (loss)

Net income for fiscal 2005 was $71.1 million, up from a loss of $23.1 million in fiscal 2004. Earnings per share for fiscal 2005 were $1.66 basic and $1.65 diluted, compared with a loss per share of $0.54 basic and diluted in fiscal 2004.

Quarterly consolidated financial information (unaudited)

The following tables set forth certain unaudited data from the consolidated statements of income (loss) and retained earnings (deficit) for each of the eight most recent quarters ended August 31, 2006. The information has been derived from the Company's unaudited consolidated financial statements that, in management's opinion, have been prepared on a basis consistent with the audited consolidated financial statements contained elsewhere in this report.

(thousands of Canadian dollars except per share amounts)	Revenues	Segment profit [1]	Net income (loss)	Earnings (loss) per share	
				Basic	Diluted
2006					
4th quarter	**184,979**	**44,515**	**46,642**	**$1.11**	**$1.09**
3rd quarter	**181,562**	**57,702**	**23,154**	**0.55**	**0.54**
2nd quarter	**164,388**	**42,151**	**(65,732)**	**(1.54)**	**(1.54)**
1st quarter	**195,341**	**69,751**	**31,407**	**0.73**	**0.72**
2005					
4th quarter	175,279	42,571	9,662	$0.23	$0.22
3rd quarter	171,890	52,351	19,430	0.45	0.45
2nd quarter	155,300	38,024	12,945	0.30	0.30
1st quarter	180,600	62,365	29,077	0.68	0.68

[1] As defined in "Key performance indicators – Segment profit and segment profit margin."

Seasonal fluctuations

Corus' operating results are subject to seasonal fluctuations that can significantly impact quarter-to-quarter operating results. Accordingly, one quarter's operating results are not necessarily indicative of what a subsequent quarter's operating results will be. The broadcasting businesses (Radio and Television) and the Content business each have unique seasonal aspects.

For the broadcasting businesses, operating results are dependent on general advertising and retail cycles associated with consumer spending activity. Accordingly, operating results for the first quarter tend to be the strongest, reflecting pre-Christmas advertising activity, and for the second quarter tend to be the weakest, consistent with lower consumer spending in winter months.

For the Content business, operating results are dependent on the timing and number of television programs made available for delivery in the period, as well as timing of merchandising royalties received, none of which can be predicted with certainty. Consequently, Content's operating results may fluctuate significantly from quarter to quarter. Cash flows may also fluctuate and are not necessarily closely related to revenue recognition.

Significant items causing variations in quarterly results

- Net income in the fourth quarter of fiscal 2006 was positively impacted by approximately $37.0 million in income tax rate changes and other income tax items.
- The second quarter of fiscal 2006 was impacted by the purchase and cancellation of the Company's Notes, as well as the termination of the cross-currency agreements associated with the Notes. The after-tax impact of these transactions was approximately $82.6 million or $1.95 per share.

Fourth quarter

Revenues for the fourth quarter were $185.0 million, an increase of 6% over $175.3 million last year. Radio revenues for the fourth quarter were $66.3 million, up 2% from the corresponding period last year. Revenue growth for the quarter was experienced in Western Canada and Ontario, with Vancouver and Calgary contributing above market average growth in the quarter, as indicated by the TRAM report for the three months ended August 31, 2006. Local airtime sales for the fourth quarter decreased over the prior year by 4%, while national airtime sales increased by 11% in the quarter. Television revenues for the fourth quarter were $94.7 million, up 13% over the corresponding period last year. Revenue growth for the quarter was driven by advertising growth of 18% and subscriber growth of 12%. Subscriber revenues for the quarter include subscriber fee adjustments of $2.3 million. Excluding these items, subscriber revenue growth for the quarter was 7%. The strong advertising results were driven by double-digit growth in YTV, CMT, W Network, TELETOON and Telelatino. In total, specialty advertising revenues grew 20% over the prior year's quarter. Content revenues for the fourth quarter were $26.8 million, a decrease of 4% from the prior year. During the quarter, Content delivered 47 episodes, compared to 12 episodes in the prior year.

Direct cost of sales, general and administrative expenses for the fourth quarter were $140.5 million, up 6% from $132.7 million in the prior year. Radio expenses of $50.4 million were up 2% from the prior year. Television expenses were $60.5 million for the fourth quarter, up 15% from the prior year, primarily due to higher programming costs. Content expenses for the quarter were $24.1 million, down by 8% from the prior year, due to lower revenues. Corporate overhead for the fourth quarter increased to $7.9 million from $6.0 million in the prior year, reflecting higher expenses for stock-based compensation.

Depreciation expense for the fourth quarter was $5.6 million, a decrease of $0.3 million from last year. This decrease reflects a lower capital cost base. Amortization expense for the fourth quarter was $0.6 million, down from $1.1 million last year. The decrease is a result of certain deferred start-up and reformatting costs becoming fully amortized. Interest expense for the fourth quarter was $8.5 million, down from $14.3 million last year. The effective interest rate for the fourth quarter was 5.3% on bank debt, compared to 9.4%, primarily on the Notes, in the prior year. Other expense for the fourth quarter was $8.3 million, compared to $5.3 million in the prior year. The current year's quarter includes $6.7 million in restructuring charges incurred in the Content segment, while the prior year's quarter includes a realized contingent consideration gain of $4.1 million, a broadcast license impairment of $4.1 million and the retroactive portion of a performing rights tariff increase in the amount of $3.8 million. Income tax recovery for the fourth quarter was $25.9 million on income before taxes of $21.6 million. The fourth quarter was positively impacted by approximately $37.0 million in income tax rate changes and other income tax items. Excluding these items, the effective tax rate for the fourth quarter was 51.4%, compared with the Company's 35.2% statutory rate. This difference is due to the impact of the fourth quarter long-term future tax rate change on the tax benefit recognized on the debt restructuring recorded in the second quarter.

Net income for the fourth quarter was $46.6 million, compared to $9.7 million last year. Earnings per share for the fourth quarter were $1.11 basic and $1.09 diluted, compared with $0.23 basic and $0.22 diluted last year.

Key performance indicators

The Company measures the success of its strategies using a number of key performance indicators. These have been outlined below, including a discussion as to their relevance, definitions, calculation methods and underlying assumptions. With the exception of revenues, direct cost of sales, general and administrative expenses and segment profit, the following key performance indicators are not measurements in accordance with Canadian or U.S. GAAP and should not be considered as an alternative to net income or any other measure of performance under Canadian or U.S. GAAP.

Revenue

Revenue is a measurement defined by Canadian and U.S. GAAP. Revenue is the inflow of cash, receivables or other consideration arising from the sale of product and services and is net of items such as trade or volume discounts and certain excise and sales taxes. It is the base on which free cash flow, a key performance indicator defined below, is determined; therefore, it measures the potential to deliver free cash flow as well as indicates the level of growth in a competitive marketplace.

The primary sources of revenues for the Company are outlined in the "Overview" section on page 21.

Corus is well diversified by revenue source with revenue streams for the year ended August 31, 2006, derived primarily from three areas: advertising (58%), subscriber fees (28%) and license fees (5%) (2005 – 58%, 27% and 9%, respectively).

Direct cost of sales, general and administrative expenses

Consolidated direct cost of sales, general and administrative expenses include amortization of program and film rights (costs of programming intended for broadcast, from which advertising and subscriber fee revenues are derived), amortization of film investments (costs associated with internally produced and acquired television and film programming, from which distribution and licensing revenues are derived), employee remuneration, regulatory license fees, cost of goods sold relating to publishing, marketing (research and advertising costs), selling, general administration and overhead costs. Cost of goods sold relating to publishing includes the material cost of the product, printing, freight, customs and duties and royalties to authors and illustrators based upon sales and is included in direct cost of sales, general and administrative expenses. Approximately 36% and 29% of consolidated direct cost of sales, general and administrative expenses in fiscal 2006 (2005 – 36% and 30%, respectively) were composed of employee remuneration and programming and film costs, respectively.

Segment profit and segment profit margin

Segment profit is calculated as revenues less direct cost of sales, general and administrative expenses as reported in the Company's consolidated statements of income (loss) and retained earnings (deficit). The Company believes this is an important measure as it allows the Company to evaluate the operating performance of its business segments and its ability to service and/or incur debt; therefore, it is calculated before (i) interest on long-term debt; (ii) non-cash expenses such as depreciation and amortization; and (iii) items not indicative of the Company's core operating results, and not used in management's evaluation of the business segment's performance, such as debt refinancing loss and other expense (income), net. Segment profit is also one of the measures used by the investing community to value the Company and is included in note 16 to the consolidated financial statements. Segment profit margin is calculated by dividing segment profit by revenues.

Free cash flow

Free cash flow is calculated as cash provided by operating activities less cash used in investing activities as reported in the consolidated statements of cash flows. Free cash flow measures the Company's ability to repay debt, finance the business and pay dividends.

(thousands of Canadian dollars)	**2006**	2005	2004
Cash provided by (used in):			
Operating activities	**111,018**	102,416	84,912
Investing activities	**(17,249)**	(21,623)	(32,425)
FREE CASH FLOW	**93,769**	80,793	52,487

Net debt and adjusted net debt

Net debt is calculated as long-term debt less cash and cash equivalents as reported in the consolidated balance sheets. Adjusted net debt is calculated as net debt adjusted for the unrealized cumulative foreign exchange gains on the Company's Notes. Adjusted net debt is an important measure as it reflects the principal amount of debt owing by the Company as at a particular date.

(thousands of Canadian dollars)	**2006**	2005
Long-term debt	**596,362**	445,162
Cash and cash equivalents	**(43,636)**	(138,086)
Net debt	**552,726**	307,076
Unrealized cumulative foreign exchange gains	**–**	158,838
ADJUSTED NET DEBT	**552,726**	465,914

Adjusted net debt to adjusted segment profit

Adjusted net debt to adjusted segment profit is calculated as adjusted net debt divided by adjusted segment profit. Adjusted segment profit is calculated as segment profit adjusted for items not considered being in the ordinary course of business. It is one of the key metrics used by the investing community to measure the Company's ability to repay debt through ongoing operations.

(thousands of Canadian dollars except ratios)	**2006**	2005	2004
Adjusted net debt (numerator)	**552,726**	465,914	545,533
Adjusted segment profit			
Segment profit	**214,119**	195,311	90,398
Writedown of investment in film	**–**	–	85,000
Adjusted segment profit (denominator)	**214,119**	195,311	175,398
ADJUSTED NET DEBT TO ADJUSTED SEGMENT PROFIT	**2.6**	2.4	3.1

Risks and uncertainties

Impact of regulation on Corus' results of operations

Radio and Television

Corus' Radio and Television business activities are regulated by the CRTC under the *Broadcasting Act* and, accordingly, Corus' results of operations may be adversely affected by changes in regulations, policies and decisions by the CRTC. The CRTC, among other things, issues licenses to operate radio and television stations and regulates the rates Corus may charge for its specialty television services if such services are distributed as part of the basic service by a cable distributor. In fiscal 2006, the CRTC granted a pay television license to an entity allowing it to compete with our premium television services. Corus' radio stations must also meet technical operating requirements under the *Radiocommunications Act* and regulations promulgated under the *Broadcasting Act*. Changes in the regulation of Corus' business activities, including decisions by the CRTC affecting Corus' operations (such as the granting or renewal of licenses, decisions as to the subscriber fees Corus may charge its customers, or the granting of additional distribution, broadcasting or programming licenses to competitors in Corus' markets) or changes in interpretations of existing regulations by courts or the CRTC, could materially adversely affect Corus' business and results of operations.

In addition, in order to maintain eligibility under the *Broadcasting Act* and the *Radiocommunications Act*, there are limitations on the ownership by non-Canadians of Corus Class A Voting Shares. Under certain circumstances, Corus' Board of Directors may refuse to issue or register the transfer of Corus Class A Voting Shares to any person that is a non-Canadian or may sell the Corus Class A Voting Shares of a non-Canadian as if they were the owner of such Corus Class A Voting Shares.

Corus' radio, conventional television, specialty television, pay television, and digital audio undertakings rely upon licenses under the *Copyright Act* (Canada) in order to make use of the music component of the programming distributed by these undertakings. Under these licenses, Corus is required to pay royalties established by the Copyright Board pursuant to the requirements of the *Copyright Act* to collecting societies that represent the copyright owners in such music component. These royalties are paid by these undertakings on a monthly basis in the normal course of their business.

The levels of the royalties payable by Corus are subject to change upon application by the collecting societies and approval by the Copyright Board. The Government of Canada may, from time to time, make amendments to the *Copyright Act* to implement Canada's international treaty obligations and for other obligations and purposes. Any such amendments could result in Corus' broadcasting undertakings being required to pay additional royalties for these licenses.

Content

Corus licenses a significant portion of its programming to Canadian conventional television stations, specialty and premium television networks, which are required by the CRTC to devote a certain portion of their programming schedules to Canadian productions. In addition to these scheduling requirements, the CRTC generally requires Canadian specialty services to devote a certain amount of their revenues to certified Canadian programming. There can be no assurance that such policies will not be eliminated or scaled back, thereby reducing the advantages that they currently provide to Corus as a supplier of such programs. Also, there can be no assurance that Corus programming will continue to qualify as certified Canadian programming. If Corus' programming fails to so qualify, Canadian broadcasters would not be able to use the programs to meet their Canadian programming obligations and, as a result, license fees paid to Corus by Canadian broadcasters would not reflect the current premium paid for certified Canadian programs and Corus would not qualify for certain Canadian tax credits and industry incentives. Canadian Heritage, the Canadian ministry that oversees the tax credits, has conducted a review of the definition of Canadian content, as it applies to film and television production, but no formal changes to the definition have been announced.

Competition

Corus encounters aggressive competition in all areas of its business. Corus' failure to compete in these areas could materially adversely affect Corus' results of operations.

The television production industry, specialty and pay television channel broadcasting and radio broadcasting have always involved a substantial degree of risk. There can be no assurance of the economic success of radio stations, television programs or specialty television channels as revenue derived depends on audience acceptance of other competing programs released into, or channels existing in, the marketplace at or near the same time, the availability of alternative forms of entertainment and leisure time activities, general economic conditions, public tastes generally and other intangible factors, all of which could change rapidly and many of which are beyond Corus' control. The lack of audience acceptance for Corus' radio stations, television programs, specialty and pay television channels would have an adverse impact on Corus' businesses, results of operations, prospects and financial condition.

Radio

The financial success of each of Corus' radio stations is dependent principally upon its share of the overall advertising revenue within its geographic market, its promotional and other expenses incurred to obtain the revenue and the economic strength of its geographic market. Corus' radio advertising revenues are, in turn, highly dependent upon audience share. Other stations may change programming formats to compete directly with Corus' stations for listeners and advertisers or launch aggressive promotional campaigns in support of already existing competitive formats. If a competitor, particularly one with substantial financial resources, were to attempt to compete in either of these fashions, ratings at Corus' affected stations could be negatively impacted, resulting in lower net revenues.

Radio broadcasting is also subject to competition from electronic and print media. Potential advertisers can substitute advertising through broadcast television, cable television systems (which can offer concurrent exposure on a number of cable networks to enlarge the potential audience), daily, weekly, and free-distribution newspapers, other print media, direct mail, and online computer services for radio advertising. Competing media commonly target the customers of their competitors, and advertisers regularly shift dollars from radio to these competing media and vice versa. Accordingly, there can be no assurance that any of Corus' radio stations will be able to maintain or increase their current audience share and advertising revenue share.

Television

The financial success of Corus' specialty television business depends on obtaining revenue from advertising as well as from subscription fees. Numerous broadcast and specialty television networks compete with Corus for advertising revenue, and a failure by Corus to obtain its necessary share of such revenue could materially adversely affect Corus' results of operations. Corus' services also compete with a number of foreign programming services which have been authorized for distribution in Canada by the CRTC. Moreover, increasingly Corus' specialty, pay and conventional television services are competing with alternative forms of entertainment that are not regulated by the CRTC, such as the Internet and video and DVD rentals. In addition, competition among specialty television services in Canada is highly dependent upon the offering of prices, marketing and advertising support and other incentives to cable operators and other distributors for carriage so as to favourably position and package the services to subscribers. As well, the CRTC has licensed a number of specialty services for digital distribution, which increases competition. Any failure by Corus to compete effectively in the area of specialty television services could materially adversely affect Corus' results of operations.

Corus' pay television services are exclusive providers of premium movies and series, as well as classical movie offerings to western Canadian subscribers. These services compete with pay-per-view movie offerings as well as video-on-demand offerings.

Content

The production and distribution of children's television, books and other media content is very competitive. There are numerous suppliers of media content, including vertically integrated major motion picture studios, television networks, independent television production companies and children's book publishers around the world. Many of these competitors are significantly larger than Corus and have substantially greater resources, including easier access to capital. Corus competes with other television and motion picture production companies for ideas and storylines created by third parties as well as for actors, directors and other personnel required for a production.

Further, vertical integration of the television broadcast industry and the creation and expansion of new networks, which create a substantial portion of their own programming, have decreased the number of available time slots for programs produced by third party production companies. There can be no assurances that Corus will be able to compete successfully in the future or that Corus will continue to produce or acquire rights to additional successful programming or enter into agreements for the financing, production, distribution or licensing of programming on terms favourable to Corus. There continues to be intense competition for the most attractive time slots offered by those services. There can be no assurances that Corus will be able to increase or maintain penetration of broadcast schedules.

Risks associated with production of film and television programs and websites

Each production is an individual artistic work and its commercial success is determined primarily by audience acceptance, which cannot be accurately predicted. The success of a program is also dependent on the type and extent of promotion and marketing activities, the quality and acceptance of other competing programs, general economic conditions and other factors, all of which can change rapidly and many of which are beyond Corus' control.

Production of film and television programs require a significant amount of capital. Factors such as labour disputes, technology changes or other disruptions affecting aspects of production may affect Corus or its co-production partners and cause cost overruns and delay or hamper completion of a production.

Financial risks exist in productions relating to tax credits and co-production treaties. The aggregate amount of government tax credits a project may receive can constitute a material portion of a production budget and typically can be as much as 30% of total budgeted costs. There is no assurance that government tax credits and industry funding assistance programs will continue to be available at current levels or that Corus' production projects will continue to qualify for them. As well, the majority of Corus' productions are co-productions involving international treaties that allow Corus to access foreign financing and reduce production risk as well as qualify for Canadian government tax credits. If an existing treaty between Canada and the government of one of the current co-production partners were to be abandoned, one or more co-productions currently underway may also need to be abandoned. Losing the ability to rely on co-productions would have a significant adverse effect on Corus' production capabilities and production financing.

Results of operations for the production and distribution business for any period are dependent on the number, timing and commercial success of television programs and feature films delivered or made available to various media, none of which can be predicted with certainty. Consequently, current revenue from production and distribution may fluctuate materially from period to period and the results of any one period are not necessarily indicative of results for future periods. Cash flows may also fluctuate and are not necessarily closely correlated with revenue recognition.

Library revenue from production and distribution can vary substantially from year to year, both by geographic territory and by year of production. The timing of Content's ability to sell library product in certain territories will depend on the market outlook in the particular territory and the availability of product by territory, which depends on the extent and term of any prior sale in that territory.

The production of websites related to Corus' Television, Radio, and Content brands generates hundreds of pages of content each day. This content is in many forms including text, graphics, databases, photographs, audio files, radio files, and interactive content such as online games and third party posts of content and links. Corus takes rigorous steps to ensure that procedures are in place to clear rights and to vet third party content. There remains a risk, however, that some potentially defamatory or infringing content can be posted on a Corus website. Corus carries insurance coverage against this risk but there remains a limited risk of liability to third party claims.

Intellectual property rights

Corus' trademarks, copyrights and other proprietary rights are important to the Company's competitive position. In particular, the Content group must be able to protect its trademarks, copyrights and other proprietary rights in order to competitively produce, distribute and license its television programs and published materials, and market its merchandise. Accordingly, Corus devotes the Company's resources to the establishment and protection of trademarks, copyrights and other proprietary rights on a worldwide basis. However, from time to time, various third parties contest or infringe upon the Company's intellectual property rights. The Company reviews these matters to determine what, if any, actions may be required or should be taken, including legal action or negotiated settlement. There can be no assurance that the Company's actions to establish and protect trademarks, copyrights and other proprietary rights will be adequate to prevent imitation or unauthorized reproduction of the Company's products by others or prevent third parties from seeking to block sales, licensing or reproduction of these products as a violation of their trademarks, copyrights and proprietary rights.

Moreover, there can be no assurance that others will not assert rights in, or ownership of, the Company's trademarks, copyrights and other proprietary rights, or that the Company will be able to successfully resolve these conflicts. In addition, the laws of certain foreign countries may not protect proprietary rights to the same extent as do the laws of the United States or Canada.

Technological developments

New or alternative media technologies and business models, such as digital radio services, satellite radio, direct-to-home satellite, wireless and wired cable television, Internet programming and video programming, and online publications have recently begun to compete, or may in the future compete, for programming, audiences and advertising revenues. These technologies and business models may increase audience fragmentation, reduce the Company's ratings or have an adverse effect on advertising revenues from local and national audiences. These or other technologies and business models may have a material adverse effect on Corus' business, results of operations or financial condition.

Interest rate and foreign exchange risk

The Company manages its exposure to floating interest rates through the use of interest rate agreements or "swaps." All such agreements are used for risk management purposes only. In order to minimize the risk of counterparty default under its swap agreements, Corus assesses the creditworthiness of its swap counterparties. Currently 100% of the Company's total swap portfolio is held by financial institutions with Standard & Poor's ratings (or the equivalent) ranging from A to AA–.

Corus has the following financial exposures to risk in its day-to-day operations:

Interest rates

The Company utilizes long-term financing extensively in its capital structure, which includes banking facilities, and U.S. dollar denominated Notes as more fully described in note 12 to the consolidated financial statements.

Interest rates on the balance of the bank loans fluctuate with Canadian bankers' acceptances and LIBOR. The Company has entered into Canadian interest rate swap agreements to fix the interest rate of a portion of the facility.

As at August 31, 2006, 67% of the Company's consolidated long-term debt was fixed with respect to interest rates.

Foreign exchange

A significant portion of revenues and expenses for the Content business is in currencies other than Canadian dollars and, therefore, is subject to fluctuations in exchange rates. Approximately 7% of Corus' total revenues were in foreign currencies, the majority of which was U.S. dollars.

Contingencies

The Company and its subsidiaries are involved in litigation arising in the ordinary course and conduct of its business. The Company recognizes liabilities for contingencies when a loss is probable and capable of being estimated. As at August 31, 2006, there were no actions, suits or proceedings pending or against the Company or its subsidiaries which would, in management's estimation, likely be determined in such a manner as to have a material adverse effect on the business of the Company.

Financial position

Total assets at August 31, 2006, were $1.84 billion compared to $1.93 billion at August 31, 2005. The following discussion describes the significant changes in the consolidated balance sheet since August 31, 2005.

Current assets decreased by $91.4 million. Cash and cash equivalents decreased by $94.5 million. This decrease is the result of financing activities related to the purchase of the Notes and the termination of the associated cross-currency agreements as well as the purchase of the Company's shares through the Normal Course Issuer Bid. Accounts receivable decreased by $12.4 million. This decrease is primarily in the Content division, from receipts related to significant revenues recorded at the end of fiscal 2005.

Non-current assets increased by $5.3 million. Investments and other assets decreased by $7.2 million, as the Company divested itself of an interest in a privately owned Canadian media company. Property, plant and equipment increased by $2.4 million as capital expenditures of $23.6 million were offset by depreciation of $21.3 million. The property, plant and equipment balance had declined through the first three quarters of fiscal 2006, as the significant investments from fiscal 2001 and 2002 were depreciated; however, capital expenditures in the fourth quarter were higher than in the first three quarters as the Company invests in consolidating its Montréal radio facilities. Program and film rights (current and non-current) increased by $35.7 million, as accruals for acquired rights of $159.3 million were offset by amortization of $124.3 million. Program rights increased due to the renewal of multi-year output arrangements, summer license term start dates for some of the key fall launch programming, and increases in condition of license requirements due to revenue growth. Film investments increased by $2.4 million as net film spending of $44.4 million was offset by film amortization and accruals for tax credits. Deferred charges decreased by $9.9 million due to amortization and the write-off of deferred financing charges as a result of the refinancing transactions in the second quarter. This was offset by the addition of new deferred financing charges related to the new bank facility. Broadcast licenses decreased by $3.8 million and goodwill decreased by $4.1 million as a result of the sale of two radio stations in the first quarter.

Current liabilities increased by $5.7 million. Accounts payable and accrued liabilities increased by $4.1 million and income taxes payable increased by $1.5 million. Accounts payable and accrued liabilities related to working capital decreased by $25.8 million, due to the change in timing of the payment of interest on long-term debt, while non-working capital accruals for program rights and film investments increased by $20.9 million, as the Company grows its program rights assets. In addition, the Company accrued $9.0 million for dividends to be paid in the first quarter of fiscal 2007.

Non-current liabilities decreased by $79.1 million. Long-term debt increased by $151.2 million, resulting from the refinancing transaction in the second quarter. The Company paid $436.0 million to purchase its Notes, and has drawn down $595.8 million on its new bank facility. This bank facility combined with an existing cash balance was used to finance the purchase of the Notes and terminate the associated cross-currency agreements. Deferred credits decreased by $167.1 million as a result of the termination of the cross-currency agreements associated with the Notes and the payment of public benefit liabilities. Net future tax liability (including current future tax asset) decreased by $75.3 million primarily as a result of the tax impact of the refinancing transaction in the second quarter, changes in long-term rates, and other items in the fourth quarter.

Share capital decreased by $15.3 million as a result of the repurchase and cancellation of shares with a book value of $21.7 million under the Company's recently implemented issuer bid. This was offset by the receipt of $6.0 million on the exercise of employee stock options, in response to a recent increase in the Company's share price. Contributed surplus increased by $3.3 million as a result of expensing stock options for the year. Cumulative translation adjustment increased by $1.5 million due to the effect of the strengthening Canadian dollar on the translation of the net assets of self-sustaining foreign operations.

Liquidity and capital resources

Cash flows

Overall, the Company's cash and cash equivalents position has decreased by $94.5 million in fiscal 2006, compared to an increase of $42.9 million in the prior year. This is due to the refinancing of the Company's debt in the second quarter and the repurchase of shares through a Normal Course Issuer Bid. Free cash flow for the year was $93.8 million compared to $80.8 million in the prior year.

Cash provided by operating activities in fiscal 2006 is $111.0 million, compared to $102.4 million last year. This increase is primarily due to cash provided by an $18.8 million increase in segment profit; an increase of $19.1 million in non-cash add-backs for stock-based compensation and amortization of program and film rights; and a $5.0 million decrease in net additions to film assets, offset by an increased investment in non-cash working capital of $12.1 million and higher payments for program rights of $12.4 million.

Cash used in investing activities in fiscal 2006 is $17.2 million, compared to $21.6 million last year. The current year includes $10.6 million in proceeds from the sale of certain radio and other assets, and $5.4 million from the disposal of investments, while capital expenditures are ahead of the prior year. The increased capital expenditures relate to the consolidation of the Montréal radio facilities.

Cash used in financing activities in fiscal 2006 is $188.2 million, compared to $37.9 million last year. In the second quarter of fiscal 2006, the Company purchased and cancelled its Notes, terminated the cross-currency agreement associated with the Notes, and amended its credit facility. The Company financed this transaction through a drawdown of the amended credit facility. In fiscal 2006, 1,034,700 shares were purchased through a Normal Course Issuer Bid for cash consideration of $36.8 million.

Liquidity

As at August 31, 2006, the Company has available $200.0 million under a revolving term credit facility that matures on January 24, 2011. Interest rates on the Company's facilities fluctuate with Canadian bankers' acceptances and LIBOR.

These borrowings combined with cash generated from operations have been the primary funding sources for operations over the last several years. The nature of the Company's business is such that significant expenditures are required to acquire program rights for the Television business and to produce and acquire film assets for the Content business. For the past three years, these expenditures have been financed from cash generated from operations. The Company has no significant commitments related to the acquisition of property, plant and equipment. Over the past three fiscal years, the Company has reduced its investment in non-cash working capital.

As at August 31, 2006, the Company has a cash balance of $43.6 million, and a working capital balance of $88.3 million. Management believes that cash flow from operations and existing credit facilities will provide the Company with sufficient financial resources to fund its operations for fiscal 2007.

Net debt and adjusted net debt

As at August 31, 2006, net debt was $552.7 million, up from $307.1 million at August 31, 2005. Adjusted net debt at August 31, 2006, was $552.7 million, up from $465.9 million at August 31, 2005. This increase in net debt is a result of the cash flows incurred to buy back the Notes and terminate the associated cross-currency agreements. Adjusted net debt to segment profit at August 31, 2006, was 2.6 times, up from 2.4 times at August 31, 2005. This ratio remains below management's stated guidance range of 3.0 to 3.5 times.

Off-balance sheet arrangements and derivative financial instruments

The Company has guarantees and general indemnification commitments to counterparties. Historically, the Company has not made any significant payments with respect to these guarantees and indemnification provisions, and management believes that the risk of loss is low.

The Company uses derivative financial instruments to manage risks from fluctuations in interest rates. These instruments include interest rate swap agreements. All such instruments are only used for risk management purposes. The net receipts or payments arising from financial instruments relating to the management of interest rate risks are recognized in interest expense over the term of the instrument. The carrying value of derivative financial instruments that do not qualify for hedge accounting is adjusted to reflect their current market value.

During fiscal 2006, the Company entered into Canadian interest rate swap agreements to fix the interest rate on its outstanding bank loans. The estimated fair value of these agreements at August 31, 2006, is $2.0 million. No asset has been included in the consolidated balance sheet.

As at August 31, 2005, the consolidated balance sheet included a liability of $158.8 million related to a cross-currency agreement. Corus terminated this agreement in the second quarter of fiscal 2006 as part of the refinancing of its debt. The fair value of the liability at the date of its termination was included in the debt refinancing loss recorded in the second quarter of fiscal 2006.

Contractual commitments

Corus has the following contractual obligations:

(thousands of Canadian dollars)	Total	Less than one year	One to three years	Four to five years	After five years
Long-term debt	600,601	–	–	600,000	601
Operating leases	98,872	21,701	33,229	19,877	24,065
Film and program rights purchase commitments	154,198	67,303	73,592	13,303	–
Other long-term obligations	18,514	2,868	5,304	5,026	5,316

Transactions with related parties

The Company has transacted business in the normal course with entities that are subject to common voting control and with entities over which the Company exercises significant influence. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties, and have normal trade terms.

During the year, the Company received cable service subscriber, programming and advertising fees of $92.8 million (2005 – $94.6 million), production and distribution revenue of $2.9 million (2005 – $2.5 million) and administrative and other fees of $6.0 million (2005 – $6.6 million) from related parties. In addition, the Company paid cable and satellite system distribution access fees of $4.4 million (2005 – $4.8 million) and administrative and other fees of $2.1 million (2005 – $2.0 million) to related parties. As at August 31, 2006, the Company had $17.4 million (2005 – $20.1 million) receivable from related parties.

The Company provided related parties with radio and television spots in return for television advertising. No monetary consideration was exchanged for these transactions and no amounts were recorded in the accounts.

In fiscal 2005, Corus acquired a cable advertising business for $0.9 million in cash from Shaw, a company subject to common voting control.

Certain officers of the Company are currently indebted to the Company in connection with the purchase of Class B Non-Voting Shares and relocation housing loans. The loans granted by the Company do not bear interest. The aggregate amount of such indebtedness as of August 31, 2006, was $6.1 million.

Outstanding share data

As at October 31, 2006, 1,722,929 Class A Voting Shares and 40,343,577 Class B Non-Voting Shares were issued and outstanding. Class A Voting Shares are convertible at any time into an equivalent number of Class B Non-Voting Shares. The Class B Non-Voting Shares are convertible into an equivalent number of Class A Voting Shares in limited circumstances.

Impact of new accounting pronouncements adopted in 2006

Non-monetary transactions

In fiscal 2006 the Company prospectively adopted the recommendations included in the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3831, "Non-monetary Transactions," which requires application of fair value measurement to non-monetary transactions determined by a number of tests. The adoption of these recommendations had no impact on the Company's consolidated financial statements.

Recent accounting pronouncements

Financial instruments, comprehensive income and hedges

In April 2005, the CICA issued Handbook Section 1530, "Comprehensive Income," Handbook Section 3855, "Financial Instruments – Recognition and Measurement," and Handbook Section 3865, "Hedges." Section 3855 expands on CICA Handbook Section 3860, "Financial Instruments – Disclosure and Presentation," by prescribing when a financial instrument is to be recognized on the balance sheet and at what amount. It also specifies how instrument gains and losses are to be presented. Section 3865 is optional. It provides alternative treatments to Section 3855 for entities that choose to designate qualifying transactions as hedges for accounting purposes and specifies how hedge accounting is applied and what disclosures are necessary when it is applied. Section 1530 introduced a new requirement to present temporarily certain gains and losses outside net income in a new component of shareholders' equity entitled Comprehensive Income. These standards are substantially harmonized with U.S. GAAP and are effective for the Company beginning September 1, 2007. The Company is currently evaluating the impact of these standards on its consolidated financial position and results of operations.

Critical accounting estimates

The Company's significant accounting policies are described in note 2 to the consolidated financial statements. The preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. The most significant assumptions made by management in the preparation of the Company's financial statements include future revenue projections for investment in film and television programs, provisions for doubtful accounts to reflect credit exposures, valuation allowances and impairment assessments for various assets including investment in film and television programs; property, plant and equipment; long-term investments; current and future income taxes; broadcast licenses and goodwill. Actual results could differ from those estimates. The policies described below are considered to be critical accounting estimates, as they require significant estimation or judgment.

Film investments

The Company accounts for its production and distribution of film and television programs in accordance with the American Institute of Certified Public Accountants ("AICPA") Statement of Position 00-2, "Accounting by Producers or Distributors of Films" ("SOP 00-2"). SOP 00-2 requires that film and television costs of production and acquisition are amortized using the individual-film-forecast-computation method. Under this method, capitalized costs for an individual film or television program are amortized in the proportion that current period actual revenues bear to management's estimates of the total revenue expected to be received from such film or

television program over a period not to exceed ten years from the date of delivery. As a result, if revenue estimates change with respect to a film or television program, the Company may be required to write down all or a portion of the unamortized costs of such film or television program, therefore impacting direct cost of sales, general and administrative expenses, and profitability.

The fiscal 2004 results include a writedown of $85.0 million resulting from lower estimates of future revenue projections. No assurance can be given that unfavourable changes to revenue estimates will not continue to occur, which may again result in significant writedowns affecting Corus' results of operations and financial condition.

Broadcast licenses and goodwill

The cost of acquiring media broadcasting, production/distribution and publishing businesses is allocated to the fair value of related net identifiable tangible and intangible assets acquired. Net identifiable intangible assets acquired consist primarily of broadcast licenses. The excess of the cost of acquiring these businesses over the fair value of related net identifiable tangible and intangible assets acquired is allocated to goodwill.

Broadcast licenses are considered to have an indefinite life based on management's intent and ability to renew the licenses without substantial cost and without material modification of the existing terms and conditions of the license. No assurance can be given that the Company will be able to renew its licenses, or that substantial cost or material modification of the existing terms and conditions will not be incurred.

Broadcast licenses and goodwill are tested for impairment annually, or more frequently if events or changes in circumstances indicate that they are impaired. The Company has selected August 31 as the date it performs its annual impairment test. The key assumptions used in the test include forecasted segment profit and industry multiples. The fair value of the Company's intangible assets is exposed to future adverse changes if the Company experiences declines in operating results, significant negative industry or economic trends, or if future performance is below historical trends.

Income taxes

The liability method of tax allocation is used in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws which are expected to be in effect when the differences are expected to reverse. Certain assumptions are required in order to determine the provision for income taxes, including filing positions on certain items and the realization of future tax assets. In fiscal 2006, the Company recorded $11.8 million in income tax recoveries related to the impact of income tax rate reductions on the measurement of future tax liabilities.

The Company is audited regularly by federal and provincial authorities in the areas of income taxes and the remittance of sales taxes. These audits consider the timing and amount of deductions and compliance with federal and provincial laws. To the extent that the Company's filing positions are challenged, the Company's effective tax rate in a given financial statement period could be materially affected.

The recognition of future tax assets depends on management's assumption that future earnings will be sufficient to realize the future benefit. No assurance can be given that future earnings will be sufficient to realize the future benefit. In fiscal 2006 the Company recorded an income tax recovery of $25.2 million relating to future tax liabilities that were deemed in that period to be no longer required as the result of various tax planning strategies.

Investments

The Company's consolidated balance sheets contain balances related to investments carried at historical cost. In certain cases, quoted market value has been lower than cost for several years. In each case, management believes that persuasive evidence exists to indicate that the financial condition and near-term prospects of the issuer are not impaired and that the Company has the intent and ability to retain its investment in the issuer until anticipated recovery in market value occurs. Therefore, management believes that the declines in market value are not other-than-temporary, and no writedown is required. No assurance can be given that a recovery will occur, and the prospect of a writedown sometime in the future remains present. As at October 31, 2006, the market value of investments held at cost exceeded their carrying amount by $0.3 million (2005 – carrying amount exceeded market value by $2.7 million).

Production tax credits

The Company's consolidated balance sheets contain balances related to production tax credits received or receivable from federal and provincial government agencies. Tax credits are claimed based on the expectation of meeting eligibility requirements and amounts may be subject to estimation and interpretation. Claims are subject to audit by federal and provincial authorities, and no assurances can be given that amounts received or receivable will not be disallowed. Such a disallowance may have an impact on the net unamortized cost of completed film, and result in higher film amortization expense.

Controls and procedures

As required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, Corus' Chief Executive Officer and Chief Financial Officer have made certain certifications related to the information in Corus' annual filings (as defined in Multilateral Instrument 52-109) with the provincial securities legislation.

As Corus is a foreign private issuer listed on the New York Stock Exchange, similar certifications by Corus' Chief Executive Officer and Chief Financial Officer are required by Section 302(a) of the *Sarbanes-Oxley Act of 2002* related to information in Corus' annual report on Form 40-F.

Evaluation of disclosure controls and procedures

As part of the Form 52-109 certification, the Chief Executive Officer and Chief Financial Officer must certify that they are responsible for establishing and maintaining disclosure controls and procedures and have designed such disclosure controls and procedures (or caused such disclosure controls and procedures to be designed under their supervision) to ensure that material information with respect to Corus, including its consolidated subsidiaries, is made known to them and that they have evaluated the effectiveness of Corus' disclosure controls and procedures as of the end of the period covered by these annual filings. Disclosure controls and procedures ensure that information required to be disclosed by Corus in the reports that it files or submits to the provincial securities legislation is recorded, processed, summarized and reported, within the time periods required. Corus has adopted or formalized such controls and procedures as it believes are necessary and consistent with its business and internal management and supervisory practices.

The Company's Chief Executive Officer and Chief Financial Officer, after evaluating the effectiveness of the Company's disclosure controls and procedures (as defined in Multilateral Instrument 52-109 and in Rules 13a-15(e) and 15d-15(e) under the *Securities Exchange Act of 1934*, as amended (the "Exchange Act")), have concluded that, as at August 31, 2006, the Company's disclosure controls and procedures were effective.

Management's annual report on internal control over financial reporting

As part of the Form 52-109 certification, the Chief Executive Officer and Chief Financial Officer must also certify that they are responsible for establishing and maintaining internal control over financial reporting and have designed such internal control over financial reporting (or caused such internal control over financial reporting to be designed under their supervision). In addition, Corus' management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company's internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of Corus' assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that the Company's receipts and expenditures are being made only in accordance with authorizations of the Company's management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the Company's financial statements.

The Company's Chief Executive Officer and Chief Financial Officer have concluded that, as at August 31, 2006, the Company has designed such internal control over financial reporting (as defined in Multilateral Instrument 52-109) to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian GAAP.

Under the supervision and with the participation of the Chief Executive Officer and Chief Financial Officer, Corus' management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting, as at August 31, 2006, based on the framework set forth in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on its evaluation under this framework, management concluded that the Company's internal control over financial reporting was effective as of that date.

Attestation report of the registered public accounting firm

Ernst & Young LLP, an independent registered public accounting firm, who has audited, and reported on, Corus Entertainment's consolidated financial statements for the year ended August 31, 2006, as included in this annual report, has also issued a report, under Auditing Standard No. 2 of the Public Company Accounting Oversight Board (United States), on management's assessment of internal control over financial reporting as at August 31, 2006.

Changes in internal controls over financial reporting

There were no changes in the Company's internal control over financial reporting that occurred during fiscal 2006 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

The design of any system of controls and procedures is based in part upon certain assumptions about the likelihood of certain events. There can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

Additional information relating to the Company, including the Annual Information Form, can be found on SEDAR at www.sedar.com.

The accompanying consolidated financial statements of Corus Entertainment Inc. and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the consolidated financial statements are presented fairly in all material respects. Management has prepared the financial information presented elsewhere in this annual report and has ensured that it is consistent with the consolidated financial statements.

Corus Entertainment Inc. maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded. During the past year, management has continued to improve and document the design and operating effectiveness of internal control over external financial reporting. The results of management's work have been subjected to audit by the shareholders' auditors. As at year end, we have determined that internal control over financial reporting is effective and Corus Entertainment Inc. has achieved compliance with the requirements set by the U.S. Securities and Exchange Commission ("SEC") under Section 404 of the U.S. *Sarbanes-Oxley Act* ("SOX"). In compliance with Section 302 of SOX, Corus Entertainment Inc.'s Chief Executive Officer and Chief Financial Officer provided to the SEC a certification related to Corus Entertainment Inc.'s annual disclosure document in the U.S. (Form 40-F). The same certification was provided to the Canadian Securities Administrators.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting, and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility through its Audit Committee.

The Audit Committee is appointed by the Board, and the majority of its members are outside unrelated directors. The Committee meets periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the annual report, the consolidated financial statements and the external auditors' report. The Committee reports its findings to the Board for consideration when approving the consolidated financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or re-appointment of the external auditors.

The consolidated financial statements have been audited by Ernst & Young LLP, the external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. Ernst & Young LLP has full and free access to the Audit Committee.

John M. Cassaday
President and Chief Executive Officer

Thomas C. Peddie FCA
Senior Vice President and Chief Financial Officer

To the shareholders of Corus Entertainment Inc.

We have audited the consolidated balance sheets of **Corus Entertainment Inc.** as at August 31, 2006 and 2005 and the consolidated statements of income (loss) and retained earnings (deficit) and cash flows for each of the years in the three-year period ended August 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards and the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at August 31, 2006 and 2005 and the results of its operations and its cash flows for each of the years in the three-year period ended August 31, 2006 in accordance with Canadian generally accepted accounting principles.

Toronto, Canada,
November 27, 2006

Ernst & Young LLP
Chartered Accountants

As at August 31 (thousands of Canadian dollars)	2006	2005
Assets (note 12)		
CURRENT		
Cash and cash equivalents	**43,636**	138,086
Accounts receivable (notes 5 and 24)	**142,934**	155,343
Prepaid expenses and other	**7,332**	10,948
Program and film rights	**104,723**	93,725
Future tax asset (note 15)	**14,535**	6,498
TOTAL CURRENT ASSETS	**313,160**	404,600
Tax credits receivable	**13,226**	12,292
Investments and other assets (note 6)	**29,642**	36,886
Property, plant and equipment, net (note 7)	**78,417**	76,041
Program and film rights	**79,380**	54,715
Film investments (note 8)	**60,779**	58,417
Deferred charges (note 9)	**5,655**	15,560
Broadcast licenses (note 10)	**505,212**	509,052
Goodwill (note 10)	**756,738**	760,801
	1,842,209	1,928,364
Liabilities and shareholders' equity		
CURRENT		
Accounts payable and accrued liabilities (notes 11 and 24)	**176,384**	172,236
Income taxes payable	**4,583**	3,049
TOTAL CURRENT LIABILITIES	**180,967**	175,285
Long-term debt (note 12)	**596,362**	445,162
Deferred credits (note 13)	**28,691**	195,789
Future tax liability (note 15)	**80,447**	147,744
Other long-term liabilities	**26,865**	22,895
Non-controlling interest	**11,379**	11,227
TOTAL LIABILITIES	**924,711**	998,102
SHAREHOLDERS' EQUITY		
Share capital (note 14)	**870,563**	885,911
Contributed surplus (note 14)	**6,878**	3,558
Retained earnings	**51,585**	50,802
Cumulative translation adjustment (note 20)	**(11,528)**	(10,009)
TOTAL SHAREHOLDERS' EQUITY	**917,498**	930,262
	1,842,209	1,928,364

Commitments, contingencies and guarantees (notes 12 and 23)

See accompanying notes

On behalf of the Board:

Director

Director

Years ended August 31 (thousands of Canadian dollars except per share amounts)	**2006**	2005	2004
REVENUES (notes 22 and 24)	**726,270**	683,069	666,804
Direct cost of sales, general and administrative expenses (notes 8, 14, 20, 23 and 24)	**512,151**	487,758	576,406
Depreciation	**21,302**	23,710	25,682
Amortization	**2,872**	4,577	7,276
Interest on long-term debt (note 12)	**43,105**	55,561	55,276
Debt refinancing loss (note 12)	**131,951**	–	–
Other expense (income), net (notes 10, 11 and 20)	**11,667**	(5,494)	(4,937)
INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST	**3,222**	116,957	7,101
Income tax expense (recovery) (note 15)	**(36,005)**	42,810	26,925
Non-controlling interest	**3,756**	3,033	3,313
NET INCOME (LOSS) FOR THE YEAR	**35,471**	71,114	(23,137)
Retained earnings (deficit), beginning of year	**50,802**	(17,122)	8,135
Dividends (note 14)	**(19,586)**	(3,190)	(2,120)
Share repurchase excess (note 14)	**(15,102)**	–	–
RETAINED EARNINGS (DEFICIT), END OF YEAR	**51,585**	50,802	(17,122)
EARNINGS (LOSS) PER SHARE (note 18)			
Basic	**$0.84**	$1.66	$(0.54)
Diluted	**$0.82**	$1.65	$(0.54)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING (in thousands)			
Basic	**42,461**	42,761	42,719
Diluted	**43,247**	43,095	42,719

See accompanying notes

Years ended August 31 (thousands of Canadian dollars)	2006	2005	2004
Operating activities			
Net income (loss) for the year	**35,471**	71,114	(23,137)
Add (deduct) non-cash items			
Depreciation	**21,302**	23,710	25,682
Amortization of program and film rights	**124,327**	110,630	105,549
Amortization of film investments	**39,450**	43,693	142,754
Other amortization	**2,872**	4,577	7,276
Future income taxes	**(74,232)**	8,601	600
Non-controlling interest	**3,756**	3,033	3,313
Foreign exchange gain	**(355)**	(2,747)	(2,057)
Stock-based compensation	**12,137**	6,766	2,984
Unrealized derivative losses (gains)	**–**	(3,278)	3,278
Broadcast license impairment	**–**	4,108	–
Debt refinancing loss	**131,951**	–	–
Other	**3,433**	1,769	(24)
Net change in non-cash working capital balances related to operations (note 19)	**(9,898)**	2,235	(18,395)
Payment of program and film rights	**(134,751)**	(122,368)	(115,314)
Net additions to film investments	**(44,445)**	(49,427)	(47,597)
CASH PROVIDED BY OPERATING ACTIVITIES	**111,018**	102,416	84,912
Investing activities			
Additions to property, plant and equipment	**(23,598)**	(19,217)	(17,421)
Decrease (increase) in investments, net	**5,374**	665	(3,685)
Decrease in public benefits associated with acquisitions	**(9,594)**	(9,893)	(11,455)
Proceeds from sale of assets	**10,569**	6,822	136
CASH USED IN INVESTING ACTIVITIES	**(17,249)**	(21,623)	(32,425)
Financing activities			
Increase (decrease) in bank loans	**592,687**	(34,017)	–
Notes repurchase and swap termination	**(727,829)**	–	–
Additions to deferred charges	**(6,000)**	(832)	–
Decrease in other long-term liabilities	**(648)**	(820)	(911)
Issuance of shares under stock option plan	**5,981**	1,650	2,212
Shares repurchased	**(36,789)**	–	–
Dividends paid	**(10,547)**	(3,190)	(2,120)
Dividends paid to minority shareholder	**(5,304)**	(937)	(521)
Other	**230**	208	210
CASH USED IN FINANCING ACTIVITIES	**(188,219)**	(37,938)	(1,130)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS DURING THE YEAR	**(94,450)**	42,855	51,357
Cash and cash equivalents, beginning of year	**138,086**	95,231	43,874
CASH AND CASH EQUIVALENTS, END OF YEAR	**43,636**	138,086	95,231

Supplemental cash flow disclosures (note 19)

See accompanying notes

August 31, 2006, 2005 and 2004
(thousands of Canadian dollars except share information)

Note 1. Basis of presentation

Corus Entertainment Inc. ("Corus" or the "Company") is a diversified Canadian communications and entertainment company. The Company is incorporated under the *Canada Business Corporations Act* and its Class B Non-Voting Shares are listed on the Toronto and New York Stock Exchanges.

Note 2. Significant accounting policies

The consolidated financial statements have been prepared by management on the historical cost basis in accordance with Canadian generally accepted accounting principles ("GAAP"). The effects of differences between the application of Canadian and U.S. GAAP on the consolidated financial statements of the Company are described in note 21.

Basis of consolidation

The consolidated financial statements include the accounts of Corus and all of its subsidiaries, all of which are wholly owned except for Country Music Television Limited (80% interest), Telelatino Network Inc. (50.5% interest), Discovery Kids Canada (53.6% interest) and SCREAM (51% interest), as well as its proportionate share of the accounts of its joint ventures. Intercompany transactions and balances have been eliminated on consolidation. The results of operations of subsidiaries acquired during the year are included from their respective dates of acquisition.

Use of estimates

The preparation of consolidated financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. The most significant assumptions made by management in the preparation of the Company's consolidated financial statements include future revenue projections for investments in film and television programs, provisions for doubtful accounts to reflect credit exposures, valuation allowances and impairment assessments for various assets including investments in film and television programs; property, plant and equipment; long-term investments; current and future income taxes; broadcast licenses and goodwill. Actual results could differ from those estimates.

Revenue recognition

Advertising revenues are recognized in the period in which the advertising is aired under broadcast contracts.

Affiliate subscriber fee revenues are recognized monthly based on subscriber levels.

Product and distribution revenues from the distribution and licensing of film rights are recognized when all of the following conditions are met: (i) persuasive evidence of a sale or licensing arrangement with a customer exists; (ii) the film is complete and has been delivered or is available for immediate and unconditional delivery; (iii) the license period of the arrangement has begun; (iv) the arrangement fee is fixed or determinable; and (v) collection of the arrangement fee is reasonably assured. Non-refundable recoupable minimum guarantees received under licensing arrangements for home videos where film titles are cross-collateralized are deferred and recognized as revenue over the license term when the underlying home videos are sold as reported by third parties.

Customer advances on contracts are recorded as unearned revenue until all of the foregoing revenue recognition conditions have been met.

Non-refundable advances that are not cross-collateralized and royalties from merchandise licensing, publishing and music contracts are recognized when the license period has commenced and collection is reasonably assured. Advances that are cross-collateralized are deferred and recognized as revenue over the license term when the underlying royalties are reported as earned by third parties.

Revenues from the sale of books are recognized at the time of shipment, net of an estimated provision for returns. Revenues from the sale of subsidiary book rights, when determinable, are recorded on an accrual basis. When amounts are not determinable, amounts are recorded on receipt of funds. Grants for specific projects are recognized as revenue when the related expenses are incurred.

Cash and cash equivalents

Cash and cash equivalents include cash and short-term deposits with maturities of less than three months at the date of purchase.

Investments

Investments in entities over which the Company exercises significant influence are accounted for using the equity method. Investments in joint ventures and partnerships that the Company jointly controls are accounted for using the proportionate consolidation method of accounting. Other investments are recorded at cost and written down only when there is evidence that a decline in value that is other-than-temporary has occurred.

Acquisitions subject to Canadian Radio-television and Telecommunications Commission ("CRTC") approval are recorded at cost until approval is received and then accounted for according to the nature of the investment made.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Broadcasting equipment	10 years
Production equipment	5 years
Leasehold improvements	lease term
Buildings	20–40 years
Computer equipment	3 years
Furniture and fixtures	7 years
Other	4–10 years

Program and film rights

Program and film rights represent contract rights acquired from third parties to broadcast television programs and feature films. The assets and liabilities related to these rights are recorded when the license period has begun and all of the following conditions have been met: (i) the cost of the rights is known or reasonably determinable; (ii) the program material is accepted by the Company in accordance with the license agreement; and (iii) the material is available to the Company for airing. Long-term liabilities related to these rights are

recorded at the net present values of future cash flows, using a discount rate that approximates the Company's weighted average cost of capital. These costs are amortized over the contracted exhibition period as the programs or feature films are aired. Program and film rights are carried at the lower of cost less accumulated amortization and net recoverable amount.

Amortization of program and film rights is included in direct cost of sales, general and administrative expenses and has been disclosed separately in the consolidated statements of cash flows.

Film investments

Film investments represent the costs of projects in development, projects in process, the unamortized costs of proprietary films and television programs that have been produced by the Company or for which the Company has acquired distribution rights, and investments in third-party-produced film projects. Such costs include development and production expenditures and attributable studio and other costs that are expected to benefit future periods.

The Company accounts for its film investments in accordance with the American Institute of Certified Public Accountants ("AICPA") Statement of Position 00-2, "Accounting by Producers or Distributors of Films" ("SOP 00-2").

The individual-film-forecast-computation method is used to determine amortization. The capitalized costs and the estimated total costs of participations and residuals, net of anticipated federal and provincial program contributions, production tax credits and co-producers' shares of production costs, are charged to amortization expense on a series or program basis in the ratio that current period revenue bears to management's estimate of total gross revenue ("ultimate revenue") to be realized from the series or program. Ultimate revenue is projected for periods not exceeding ten years from the date of delivery or acquisition. For episodic television series, SOP 00-2 requires that ultimate revenue includes estimates of revenue over a period not to exceed ten years from the date of delivery of the first episode or, if still in production, five years from the date of delivery of the most recent episode, if later. Estimates of gross revenue can change significantly due to the level of market acceptance of film and television products. Accordingly, revenue estimates are reviewed periodically and amortization is adjusted. Such adjustments could have a material effect on the results of operations in future periods.

The Company reviews the status of projects in development quarterly. If, in the opinion of management, any such projects will not progress toward production, the accumulated costs are charged to direct cost of sales. Projects are written off at the earlier of the date determined not to be recoverable or when projects under development are abandoned, and three years from the date of the initial investment.

Projects in process represent the accumulated costs of television series or feature films currently in production.

Completed project and distribution rights are stated at the lower of unamortized cost or estimated net realizable value as determined on a series or program basis. Revenue and cost forecasts for each production are evaluated quarterly in connection with a comprehensive review of the Company's film investments, on a title-by-title basis. When an event or change in circumstances indicates that the fair value of a film is less than its unamortized cost, the fair value of the film is determined using management's estimates of future revenues under a discounted cash flow approach. A writedown is recorded equivalent to the amount by which the unamortized costs exceed the estimated fair value of the film.

Investments in third-party-produced film projects are carried at the lower of cost and net realizable value.

Amortization of film investments is included in direct cost of sales, general and administrative expenses.

Deferred charges

Financing costs and credit facility arrangement fees are amortized to income on a straight-line basis over the term of the debt facility.

Deferred charges are carried at the lower of cost less accumulated amortization and net recoverable amount.

Broadcast licenses and goodwill

The cost of acquiring media broadcasting, production/distribution and publishing businesses is allocated to the fair value of related net identifiable tangible and intangible assets acquired. Net identifiable intangible assets acquired consist primarily of broadcast licenses. The excess of the cost of acquiring these businesses over the fair value of related net identifiable tangible and intangible assets acquired is allocated to goodwill.

Broadcast licenses are considered to have an indefinite life based on management's intent and ability to renew the licenses without substantial cost and without material modification of the existing terms and conditions of the license.

Broadcast licenses and goodwill are tested for impairment annually or more frequently if events or changes in circumstances indicate that they may be impaired. The Company has selected August 31 as the date it performs its annual impairment test.

Government financing and assistance

The Company has access to several government programs that are designed to assist film and television production in Canada. Funding from certain programs provides a supplement to a series' Canadian license fees and is recorded as revenue when cash has been received. Government assistance with respect to federal and provincial production tax credits is recorded as a reduction of film investments when eligible expenditures are made and there is reasonable assurance of realization. Assistance in connection with equity investments is recorded as a reduction in film investments.

Government grants approved for specific publishing projects are recorded as revenue when the related expenses are incurred.

Deferred credits

Deferred credits include (i) a provision for contributions to Canadian broadcasting initiatives that must be made by a purchaser of specialty television, pay television and radio undertakings in accordance with CRTC policies ("public benefits associated with acquisitions") associated with acquiring radio and television businesses that will be drawn down when the Company makes eligible payments toward meeting the conditions of license; (ii) foreign exchange gains on translating hedged long-term debt; and (iii) unearned revenue from the distribution and licensing of rights for feature films and television programs.

Income taxes

The liability method of tax allocation is used in accounting for income taxes. Under this method, future tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and measured using the substantively enacted tax rates and laws that are expected to be in effect when the differences are expected to reverse.

Foreign currency translation

The assets and liabilities of the Company's self-sustaining operations having a functional currency that is not in Canadian dollars are translated into Canadian dollars using the exchange rate in effect at the consolidated balance sheet date, and revenues and expenses are translated at the average rate during the year. Exchange gains or losses on translation of the Company's net equity investment in these operations are deferred as a separate component of shareholders' equity.

For integrated foreign operations monetary items are translated into Canadian dollars at exchange rates in effect at the consolidated balance sheet date, and non-monetary items are translated at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transaction. Foreign exchange gains and losses are included in net income (loss) for the year.

Long-term debt denominated in U.S. dollars is translated into Canadian dollars at the year-end rate of exchange. Exchange gains or losses on translating long-term debt that qualifies for hedge accounting are offset against the corresponding exchange gains or losses arising on the cross-currency agreements.

Other exchange gains and losses are included in net income (loss) for the year.

Financial instruments and hedging relationships

The Company uses derivative financial instruments to manage risks from fluctuations in exchange and interest rates. These instruments may include cross-currency and interest rate swap agreements. All such instruments are only used for risk management purposes. The net receipts or payments arising from financial instruments relating to the management of interest rate risks are recognized in interest expense over the term of the instrument. Foreign exchange gains or losses arising on cross-currency agreements used to hedge U.S. dollar denominated debt are offset against the corresponding exchange gains or losses on the hedged item. The carrying values of derivative financial instruments that do not qualify for hedge accounting are adjusted to reflect their current market value.

Stock-based compensation and other stock-based payments

The fair value of each stock option granted is estimated on the date of the grant using the Black-Scholes option pricing model and expensed over the option's vesting period. Compensation expense related to the Performance Share Units and long-term incentive plan is accrued over the term of the restriction period based on the expected total compensation to be paid out at the end of the restriction period. Consideration paid by the Company under its Employee Share Purchase Plan is included in direct cost of sales, general and administrative expenses.

Earnings (loss) per share

Basic earnings (loss) per share are calculated using the weighted average number of common shares outstanding during the year. The computation of diluted earnings (loss) per share assumes the basic weighted average number of common shares outstanding during the year is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. The dilutive effect of stock options is determined using the treasury stock method.

Impairment of long-lived assets

When events or circumstances indicate potential impairment, long-lived assets, other than broadcast licenses and goodwill, are written down to their fair value if the net carrying amount of the asset exceeds the net recoverable amount, calculated as the sum of undiscounted cash flows related to the asset.

Non-monetary transactions

Effective September 1, 2005, the Company prospectively adopted the recommendations included in the Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3831, "Non-monetary Transactions," which requires application of fair value measurement to non-monetary transactions determined by a number of tests. The adoption of these recommendations had no impact on the Company's consolidated financial statements.

Note 3. Business combinations

Effective May 29, 2005, Corus completed an asset exchange with Astral Media Inc. ("Astral"). This resulted in Corus acquiring eight Astral-owned radio stations in Québec and receiving other consideration including $2,500 in cash, in exchange for five Corus-owned radio stations in Québec. This transaction was accounted for using the purchase method. The results of operations of the eight stations previously owned by Astral are included in Corus' consolidated financial statements from the date of the transaction. Accrued liabilities include a severance accrual of approximately $1,676, which was substantially settled by the end of fiscal 2005, except for accruals relating to salary continuance. No gain or loss was recorded on this transaction.

CONSIDERATION GIVEN:	
Cash	(2,500)
Property, plant and equipment	1,958
Broadcast licenses	2,047
Goodwill	6,917
Transaction costs	908
	9,330
ASSIGNED VALUE OF NET ASSETS ACQUIRED:	
Property, plant and equipment	2,750
Broadcast licenses	11,025
Accrued liabilities	(1,828)
Future tax liability	(2,617)
	9,330

Note 4. Joint ventures

The following amounts, included in these consolidated financial statements, represent the Company's proportionate share in joint ventures:

	2006	2005
CONSOLIDATED BALANCE SHEETS		
Current assets	**29,869**	28,337
Long-term assets	**19,114**	14,263
Current liabilities	**22,440**	19,888
CONSOLIDATED STATEMENTS OF INCOME		
Revenues	**40,297**	34,974
Expenses	**29,610**	26,945
NET INCOME	**10,687**	8,029
CONSOLIDATED STATEMENTS OF CASH FLOWS		
Operating activities	**8,129**	9,560
Investing activities	**1,059**	(39)

Note 5. Accounts receivable

	2006	2005
Trade	**137,126**	151,053
Other **(a)**	**8,901**	7,957
	146,027	159,010
Less allowance for doubtful accounts	**3,093**	3,667
	142,934	155,343

(a) Other receivables

Other receivables include the current portion of loans to executive officers.

Note 6. Investments and other assets

	2006	2005
Astral Media Inc. **(a)**	**13,861**	13,861
Other **(b)**	**15,781**	23,025
	29,642	36,886

(a) Astral Media Inc.

The Company holds 54,600 Class A non-voting shares and 297,200 Class B subordinate voting shares of Astral with a market value of $13,426 (2005 – $11,366).

(b) Other investments

Other investments consist primarily of financing provided to the Company's digital channels, long-term portion of loans to executive officers, and other investments accounted for on a cost and equity basis.

Note 7. Property, plant and equipment

2006	Cost	Accumulated depreciation	Net book value
Broadcasting equipment	**35,005**	**24,121**	**10,884**
Production equipment	**89,660**	**75,779**	**13,881**
Leasehold improvements	**38,580**	**22,787**	**15,793**
Buildings	**23,094**	**9,143**	**13,951**
Computer equipment	**49,666**	**37,917**	**11,749**
Furniture and fixtures	**21,752**	**18,112**	**3,640**
Other	**4,216**	**2,511**	**1,705**
Land	**6,814**	**–**	**6,814**
	268,787	**190,370**	**78,417**

2005	Cost	Accumulated depreciation	Net book value
Broadcasting equipment	32,535	23,763	8,772
Production equipment	87,329	69,697	17,632
Leasehold improvements	31,328	21,520	9,808
Buildings	22,649	7,558	15,091
Computer equipment	52,124	41,265	10,859
Furniture and fixtures	21,124	17,068	4,056
Other	5,527	2,528	2,999
Land	6,824	–	6,824
	259,440	183,399	76,041

Note 8. Film investments

	2006	2005
Projects in development and in process, net of advances	**17,397**	15,876
Completed projects and distribution rights	**28,721**	28,796
Investments in third-party-produced film projects	**14,661**	13,745
	60,779	58,417

During fiscal 2006, the Company reduced its investments in film and television programs by anticipated federal and Ontario production tax credits amounting to $11,292 (2005 – $11,701).

During the third quarter of fiscal 2004, the Company reviewed, as required, future revenue projections, or ultimates, on a title-by-title basis, supporting the carrying value of its film investments in the Content division, and lowered its estimates of future revenues with reference to current and anticipated market conditions and foreign exchange rates, resulting in the recognition of an $85,000 writedown of film investments in the quarter. This writedown is included in direct cost of sales, general and administrative expenses for the year.

The Company expects that 40% and 67% of the net book value of completed projects and distribution rights will be amortized during the year ending August 31, 2007, and three years ending August 31, 2009, respectively. It is estimated that at least 80% will be amortized within four years.

The Company expects that $2,079 of accrued participation liabilities will be paid during the year ending August 31, 2007.

Note 9. Deferred charges

2006	Cost	Accumulated amortization	Net book value
Financing costs and credit facility arrangement fees	**6,000**	**700**	**5,300**
Start-up costs of new specialty programming networks	**5,264**	**4,909**	**355**
	11,264	**5,609**	**5,655**

2005	Cost	Accumulated amortization	Net book value
Financing costs and credit facility arrangement fees	28,233	13,676	14,557
Start-up costs of new specialty programming networks	9,857	8,854	1,003
	38,090	22,530	15,560

Note 10. Broadcast licenses and goodwill

At August 31, 2006, 2005 and 2004, the Company performed its annual impairment test of broadcast licenses and goodwill and determined that there was no impairment for the years ended August 31, 2006 and 2004. For the year ended August 31, 2005, the Company determined that there was an impairment of $4,108 in the broadcast licenses related to three radio stations. This impairment charge is included in other expense (income), net.

To determine the amount of impairment, management uses a fair value methodology based on market transaction multiples for comparable businesses applied to forecasted operating income used to evaluate the reporting units' performance. Estimates of forecasted operating income involve measurement uncertainty and it is therefore possible that reductions in the carrying value of broadcast licenses and goodwill may be required as a result of changes in management's future revenue estimates. Actual results may differ from estimates and as a consequence a material impairment charge may be recorded.

During the first quarter of fiscal 2006, the Company completed the sale of two radio stations for an aggregate purchase price of $9,115. There were reductions of $3,840 and $4,063 in broadcast licenses and goodwill, respectively, and an immaterial loss was recorded on these dispositions.

Note 11. Accounts payable and accrued liabilities

	2006	2005
Trade	**68,935**	69,996
Program rights payable	**84,164**	59,607
Film investment accruals	**1,866**	5,413
Accrued interest	**72**	28,654
Dividends payable	**9,039**	–
Restructuring provision **(a)**	**4,681**	–
Third party participation payments	**5,006**	6,813
Goods and services tax	**1,422**	1,201
Other	**1,199**	552
	176,384	172,236

(a) Restructuring provision

In fiscal 2006 the Company recorded restructuring expenses of $4,165 in the Radio segment and $6,728 in the Content segment related to severance and other restructuring activities. These costs are included in other expense (income), net. As at August 31, 2006, $4,681 of this provision remains unpaid. The Company anticipates that this provision will be substantially paid in fiscal 2007.

Note 12. Long-term debt

	2006	2005
Senior Subordinated Notes translated at the current rate **(a)**	**601**	445,162
Bank loans **(b)**	**595,761**	–
	596,362	445,162

(a) Senior Subordinated Notes

On March 7, 2002, Corus issued U.S.$375,000 aggregate principal amount of 8.75% Senior Subordinated Notes (the "Notes") due in 2012 at a price of 99.186% of their aggregate principal amount. The Company entered into cross-currency agreements to fix the liability for interest and principal payments on the Notes. The agreements resulted in an effective interest rate of 9.33% on the Canadian dollar equivalent of the U.S. debt. The exchange rate applicable to the principal portion of the debt has been fixed at Cdn.$1.6107, translating to approximately Cdn.$604,000.

On December 15, 2005, the Company commenced a cash tender offer and consent solicitation for its Notes. On January 23, 2006, the Company completed its tender offer for the Notes, and as a result U.S.$373,646 of the Notes were acquired by the Company and cancelled, leaving U.S.$1,354 outstanding. Concurrently, the cross-currency agreements were effectively terminated. As at August 31, 2006, U.S.$544 of the Notes remain outstanding.

(b) Bank loans

In order to fund the purchase of the Notes, the Company's credit facility with a syndicate of banks was amended and its operating loan facility was terminated. The amendment resulted in an extension of the maturity of the credit facility to January 24, 2011. The amount committed is $800,000, of which $300,000 is available on a revolving basis (the "Revolving Facility") and $500,000 on a non-revolving basis (the "Term Facility"), and is repayable at maturity. Funds are available to the Company in both Canadian and U.S. dollars and charge interest on a fluctuating basis plus a margin. Other terms of the amended credit facility are substantially similar to the prior credit facility. As at August 31, 2006, $100,000 of the Revolving Facility and all of the Term Facility were utilized in Canadian dollars.

Interest rates on the balance of the bank loans fluctuate with Canadian bankers' acceptances and LIBOR. The Company has entered into Canadian interest rate swap agreements to fix the interest rate at 4.13% plus a margin on $400,000 of the Term Facility for the full term of the facility. Interest on the bank loans averaged 5.2% for the year ended August 31, 2006 (2005 – 2.7%).

The transactions in (a) and (b) above resulted in the Company recording a $131,951 debt refinancing loss in fiscal 2006. The components of this loss include mark-to-market payments on the cross-currency agreement termination, consent and tender premiums, the write-off of deferred financing charges, and underwriting and other fees.

The banks hold as collateral a first ranking charge on all assets and undertakings of Corus and certain of Corus' subsidiaries as designated under the credit agreements. As well, unlimited guarantees are provided by certain subsidiaries. Under the facility, the Company has undertaken to maintain certain financial covenants. Management has determined that the Company was in compliance with the covenants provided under the bank loans as at August 31, 2006.

Note 13. Deferred credits

	2006	2005
Public benefits associated with acquisitions	**11,615**	21,209
Cross-currency agreements translated into Canadian dollars at the current rate	–	158,838
Unearned revenue from distribution and licensing of film rights	**11,415**	12,320
Other	**5,661**	3,422
	28,691	195,789

Note 14. Share capital

Authorized

The Company is authorized to issue, upon approval of holders of no less than two-thirds of the existing Class A shares, an unlimited number of Class A participating shares ("Class A Voting Shares"), as well as an unlimited number of Class B non-voting participating shares ("Class B Non-Voting Shares"), Class A Preferred Shares, and Class 1 and Class 2 Preferred Shares.

Class A Voting Shares are convertible at any time into an equivalent number of Class B Non-Voting Shares. The Class B Non-Voting Shares are convertible into an equivalent number of Class A Voting Shares in limited circumstances.

The Class A Preferred Shares are redeemable at any time at the demand of Corus and retractable at any time at the demand of a holder of a Class A Preferred Share for an amount equal to the consideration received by Corus at the time of issuance of such Class A Preferred Shares. Holders of Class A Preferred Shares are entitled to receive a non-cumulative dividend at such rate as Corus' Board of Directors may determine on the redemption amount of the Class A Preferred Shares. Each of the Class 1 Preferred Shares, the Class 2 Preferred Shares, the Class A Voting Shares and the Class B Non-Voting Shares rank junior to and are subject in all respects to the preferences, rights, conditions, restrictions, limitations and prohibitions attaching to the Class A Preferred Shares in connection with the payment of dividends.

The Class 1 and Class 2 Preferred Shares are issuable in one or more series with attributes designated by the Board of Directors. The Class 1 Preferred Shares rank senior to the Class 2 Preferred Shares.

In the event of liquidation, dissolution or winding up of Corus or other distribution of assets of Corus for the purpose of winding up its affairs, the holders of Class A Preferred Shares are entitled to a payment in priority to all other classes of shares of Corus to the extent of the redemption amount of the Class A Preferred Shares, but will not be entitled to any surplus in excess of that amount. The remaining property and assets will be available for distribution to the holders of the Class A Voting Shares and Class B Non-Voting Shares, which shall be paid or distributed equally, share for share, between the holders of the Class A Voting Shares and the Class B Non-Voting Shares, without preference or distinction.

Issued and outstanding

The changes in the Class A Voting Shares and Class B Non-Voting Shares since August 31, 2004, are summarized as follows:

	Class A Voting Shares		Class B Non-Voting Shares		Total
	#	$	#	$	$
BALANCE, AUGUST 31, 2004	1,724,929	26,715	41,014,099	857,338	884,053
Issuance of shares under Stock Option Plan	–	–	64,020	1,650	1,650
Repayment of executive stock purchase loans	–	–	–	208	208
BALANCE, AUGUST 31, 2005	1,724,929	26,715	41,078,119	859,196	885,911
Conversion of Class A Voting Shares to Class B Non-Voting Shares	(1,000)	(15)	1,000	15	–
Issuance of shares under Stock Option Plan	–	–	237,110	6,109	6,109
Shares repurchased	–	–	(1,034,700)	(21,687)	(21,687)
Repayment of executive stock purchase loans	–	–	–	230	230
BALANCE, AUGUST 31, 2006	**1,723,929**	**26,700**	**40,281,529**	**843,863**	**870,563**

Stock Option Plan

Under the Company's Stock Option Plan (the "Plan"), the Company may grant options to purchase Class B Non-Voting Shares to eligible officers, directors and employees of or consultants to the Company. The maximum number of shares that can be reserved for issuance under the Plan is 4,084,642. All options granted are for terms not to exceed ten years from the grant date. The exercise price of each option equals the market price of the Company's stock on the date of grant. Options vest 25% on each of the first, second, third and fourth anniversary dates of the date of grant.

A summary of the options outstanding as at August 31, 2006, and the changes since August 31, 2004, is presented as follows:

	Number of options (#)	Weighted average exercise price ($)
OUTSTANDING, AUGUST 31, 2004	3,149,575	28.10
Granted	443,600	23.80
Forfeited	(90,666)	31.66
Exercised	(64,020)	25.77
OUTSTANDING, AUGUST 31, 2005	3,438,489	27.49
Granted	272,000	32.39
Forfeited	(43,737)	30.62
Exercised	(237,110)	25.23
OUTSTANDING, AUGUST 31, 2006	**3,429,642**	**28.00**

The fair value of each option granted was estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	Fiscal 2006	Fiscal 2005
Expected life	**5 years**	5 years
Risk-free interest rate	**3.73%**	4.31%
Dividend yield	**0.31%**	0.21%
Volatility	**33.33%**	35.98%

The weighted average fair value of the stock options granted during fiscal 2006 was $11.16 per option. The estimated value of the options is amortized to income over the options vesting period on a straight-line basis. The Company has recorded stock-based compensation expense for the year ended August 31, 2006, of $2,915 (2005 – $2,271; 2004 – $1,287). This charge has been credited to contributed surplus.

As at August 31, 2006, the options outstanding and exercisable consisted of the following:

	Options outstanding			Options exercisable	
Range of exercise prices ($)	Number outstanding (#)	Weighted average remaining contractual life (years)	Weighted average exercise price ($)	Number outstanding (#)	Weighted average exercise price ($)
19.05–24.95	1,451,665	4.5	22.82	954,268	22.36
25.25–35.83	1,475,657	2.6	29.06	1,206,357	28.38
36.14–44.00	502,320	1.8	39.83	492,320	39.91
19.05–44.00	**3,429,642**	**3.3**	**28.00**	**2,652,945**	**28.35**

Dividends

The holders of Class A Voting Shares and Class B Non-Voting Shares are entitled to receive such dividends as the Board of Directors determines to declare on a share-for-share basis, as and when any such dividends are declared or paid. The holders of Class B Non-Voting Shares are entitled to receive during each dividend period, in priority to the payment of dividends on the Class A Voting Shares, an additional dividend at a rate of $0.01 per share per annum. This additional dividend is subject to proportionate adjustment in the event of future consolidations or subdivisions of shares and in the event of any issue of shares by way of stock dividend. After payment or setting aside for payment of the additional non-cumulative dividends on the Class B Non-Voting Shares, holders of Class A Voting Shares and Class B Non-Voting Shares participate equally, on a share-for-share basis, on all subsequent dividends declared.

On December 9, 2003, the Board of Directors of Corus approved a semi-annual dividend for holders of Class A Voting Shares and Class B Non-Voting Shares of $0.02 and $0.025, respectively. On April 14, 2005, the Board of Directors of Corus approved an increase in its semi-annual dividend to holders of Class A Voting Shares and Class B Non-Voting Shares to $0.045 and $0.05, respectively. On January 12, 2006, the Board of Directors of Corus approved an increase in its dividend, to be paid quarterly, to holders of Class A Voting Shares and Class B Non-Voting Shares to $0.0975 and $0.010, respectively. On July 13, 2006, the Board of Directors of Corus approved an increase in its quarterly dividend to holders of Class A Voting Shares and Class B Non-Voting Shares to $0.2125 and $0.215, respectively.

In fiscal 2006, the Company paid three dividends on December 31, 2005, March 31, 2006, and June 30, 2006, to shareholders of record at the close of business on December 15, 2005, March 15, 2006, and June 15, 2006, respectively. The total amount of dividends declared in fiscal 2006 was $19,586 (2005 – $3,190).

Executive stock purchase loans

In October 2001, the Board of Directors of the Company authorized the granting of loans to certain of its executive officers in order to finance the acquisition of Class B Non-Voting Shares of the Company on the open market. These loans are non-interest bearing and are secured by a promissory note and the relevant Class B Non-Voting Shares. Each loan has a ten-year term from December 1, 2001, with annual instalments at the greater of 10% of the original principal or 10% of the employee's pre-tax bonus for the most recently completed financial year of the Company. As at August 31, 2006, the Company had loans receivable of $1,180 (2005 – $1,410) from certain qualifying executive officers. As at August 31, 2006, the market value of the shares held as collateral for the loans was $2,111 (2005 – $1,762).

Performance Share Units

The Company has granted Performance Share Units ("PSUs") to certain employees. Each PSU entitles the participant to receive a cash payment in an amount equal to the closing price of Class B Non-Voting Shares traded on the Toronto Stock Exchange at the end of the restrictions period, multiplied by the number of vested units determined by achievement of specific performance-based criteria. The restriction period for PSUs granted in fiscal 2004 ended August 31, 2006; the restriction period for PSUs granted in fiscal 2005 ends August 31, 2007; and the restriction period for PSUs granted in fiscal 2006 ends August 31, 2008. The employee must be actively employed by Corus as of the end of the restriction period to receive a payment of the vested units. Compensation expense related to the PSUs is accrued over the term of the restriction period based on the expected total compensation to be paid out at the end of the restriction period, factoring in the probability of any performance-based criteria being met during the period. The compensation expense recorded for the year ended August 31, 2006, in respect of this plan, was $8,689 (2005 – $4,495) and has been recorded in direct cost of sales, general and administrative expenses.

Long-term incentive plan

In fiscal 2006, the Company implemented a new long-term plan for senior management based on shareholder appreciation targets of 13.5%, 16% and 20% over a cumulative five-year period and peer group performance. The plan is intended to encourage and reward outstanding performance by plan participants if certain performance measures are met. The plan is also designed to act as a retention tool. The plan has two performance measures. The first measure is absolute annualized shareholder return and represents 80% of the potential award. The annual volume weighted return is based on three target levels of 13.5%, 16% and 20%. The second measure is relative performance against relevant peer companies and represents 20% of the potential award. The participant is not eligible to receive an award until two years after achieving the target and the award will vest at the rate of one-third on the third anniversary, one-third on the fourth anniversary and one-third on the fifth anniversary. The obligation will be funded by the purchase of Corus shares in the open market. The Company has recorded stock-based compensation expense for the year of $533 (2005 – nil). This charge has been credited to contributed surplus.

Normal Course Issuer Bid

On December 15, 2005, the Company announced its intention to make a Normal Course Issuer Bid for its Class B Non-Voting Shares through the facilities of the Toronto Stock Exchange. The Company intends to purchase for cancellation a maximum of 3,000,000 Class B Non-Voting Shares.

During the year ended August 31, 2006, the Company repurchased and cancelled 1,034,700 Class B Non-Voting Shares for a total cash consideration of $36,789. This cash consideration exceeded the carrying value of the shares repurchased by $15,102, which amount was charged to retained earnings.

Pro forma impact of stock-based compensation

For options granted to employees up to August 31, 2003, had compensation costs for the Plan been determined based on the fair value based method of accounting for stock-based compensation, the Company's net income (loss) and earnings (loss) per share would have been reduced to the pro forma amounts indicated below:

	2006	2005	2004
Net income (loss)	**35,471**	71,114	(23,137)
Pro forma net income (loss)	**34,284**	69,598	(25,123)
Pro forma basic earnings (loss) per share	**$0.81**	$1.63	$(0.59)
Pro forma diluted earnings (loss) per share	**$0.79**	$1.62	$(0.59)

Note 15. Income taxes

(a) Future income taxes reflect the net tax effects of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's future tax liability and asset as at August 31 are as follows:

	2006	2005
FUTURE TAX LIABILITY		
Deferred charges deducted for tax purposes capitalized for accounting purposes	**840**	1,350
Capital cost allowance in excess of book depreciation	**131**	118
Deferred partnership income	**4,206**	3,476
Differences in tax and accounting cost bases for investments	**14,526**	39,509
Broadcast licenses and other intangibles	**136,507**	150,757
Other, net	**2,620**	2,623
TOTAL FUTURE TAX LIABILITY	**158,830**	197,833
FUTURE TAX ASSET		
Book depreciation in excess of capital cost allowance	**26,640**	33,913
Loss carryforwards, net of valuation allowances	**43,033**	18,066
Amortization deducted for accounting purposes in excess of tax purposes	**17,706**	800
Differences in tax and accounting cost bases for investments	**1,747**	1,199
Revenue recognition differences between tax and accounting purposes	**1,058**	688
Purchase price equation differences	**57**	57
Other, net	**2,677**	1,864
TOTAL FUTURE TAX ASSET	**92,918**	56,587
NET FUTURE TAX LIABILITY	**65,912**	141,246
Less current portion of future tax asset	**14,535**	6,498
FUTURE TAX LIABILITY	**80,447**	147,744

(b) Significant components of the income tax expense (recovery) attributable to operations are as follows:

	2006	2005	2004
Current tax expense	**38,227**	34,209	26,326
Future tax expense (recovery) relating to origination and reversal of temporary differences	**(12,978)**	2,559	(22,227)
Future tax expense (recovery) resulting from utilization (recognition) of losses	**(24,552)**	9,035	782
Future tax expense (recovery) resulting from tax rate changes	**(11,835)**	254	16,810
Recovery of various future tax liabilities	**(25,187)**	–	–
Other	**320**	(3,247)	5,234
INCOME TAX EXPENSE (RECOVERY)	**(36,005)**	42,810	26,925

Included in income tax recovery for fiscal 2006 is a change in long-term future tax rates resulting in a recovery of $11,835 and a recovery of $25,187 relating to future tax liabilities that are deemed in the current period to be no longer required as the result of various tax planning strategies.

(c) The reconciliation of income taxes attributable to operations computed at the statutory tax rates to income tax expense is as follows:

	2006		2005		2004	
	$	**%**	$	%	$	%
Tax at combined federal and provincial rates	**1,133**	**35.2**	41,356	35.4	2,578	36.3
Differences from statutory rates relating to amortization of intangibles	**243**	**7.5**	166	0.1	(84)	(1.2)
Non-deductible (non-taxable) portion of net capital losses (gains) on sale of investments	**(4,221)**	**(131.0)**	(19)	–	22	0.3
Increase (reduction) in future taxes resulting from statutory rate change	**(11,835)**	**(367.3)**	254	0.2	16,810	236.7
Reversal in current year of temporary differences originally recorded using long-term tax rates	**2,368**	**73.5**	–	–	1,012	14.3
Large Corporations Tax and foreign withholding tax	**600**	**18.6**	1,617	1.4	1,084	15.3
Recovery of various future tax liabilities	**(25,187)**	**(781.7)**	–	–	–	–
Other	**894**	**27.7**	(564)	(0.5)	5,503	77.5
	(36,005)	**(1,117.5)**	42,810	36.6	26,925	379.2

(d) The Company recognizes as a future tax asset the benefit of capital and non-capital loss carryforwards to the extent it is more likely than not that the benefit will be realized. As at August 31, 2006, the Company had available loss carryforwards of approximately $145,800. A future tax asset of $49,600 (2005 – $26,800) has been recognized in respect of these carryforwards, net of a valuation allowance of $7,300 (2005 – $8,700).

The available loss carryforwards will expire as follows:

2008	3,200
2009	8,600
2010	2,800
2011	5,300
2015	4,900
2016	107,800
2025	900
No expiration – capital losses	12,300
	145,800

Note 16. Business segment information

The Company's business activities are conducted through three reportable operating segments:

Radio

The Radio segment consists of 51 radio stations, situated primarily in high-growth urban centres in Canada. Revenues are derived from advertising aired over these stations.

Television

The Television segment includes interests in several specialty television networks, pay television, conventional television stations, a digital music service and cable advertising services. Revenues are generated from subscriber fees and advertising.

Content

The Content segment includes the production and distribution of television programs and the sale and licensing of related products. Revenues are generated from licensing of proprietary films and television programs, merchandise licensing and publishing. Prior to fiscal 2005, the Content segment had been reported as two components: Content – production and distribution; and Content – branded consumer products. Corus has changed the structure of its internal organization such that the production and distribution of television products and the licensing of related products are managed as an integrated business process, and are not meaningful to view as separate business activities. Commencing with fiscal 2005, the results of the Content division have been disclosed in aggregate, and the corresponding items of segment information for earlier periods have been restated.

Except as noted above, the accounting policies of the segments are the same as those described in the summary of significant accounting policies. Management evaluates each business segment's performance based on revenues less direct cost of sales, general and administrative expenses. Transactions between reporting segments are recorded at fair value.

(a) Revenues and segment profit (loss)

Year ended August 31, 2006	Radio	Television	Content	Corporate	Eliminations	Consolidated
Revenues	268,367	393,349	72,125	–	(7,571)	726,270
Direct cost of sales, general and administrative expenses	200,015	229,109	66,572	23,998	(7,543)	512,151
Segment profit (loss)	68,352	164,240	5,553	(23,998)	(28)	214,119
Depreciation	6,899	7,427	3,215	3,761	–	21,302
Amortization	–	1,065	–	1,807	–	2,872
Interest on long-term debt	–	–	–	43,105	–	43,105
Debt refinancing loss	–	–	–	131,951	–	131,951
Other expense (income), net	4,000	901	6,468	298	–	11,667
INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST	57,453	154,847	(4,130)	(204,920)	(28)	3,222

Year ended August 31, 2005	Radio	Television	Content	Corporate	Eliminations	Consolidated
Revenues	252,685	354,201	82,318	–	(6,135)	683,069
Direct cost of sales, general and administrative expenses	183,680	213,419	78,750	18,611	(6,702)	487,758
Segment profit (loss)	69,005	140,782	3,568	(18,611)	567	195,311
Depreciation	6,979	9,060	3,926	3,745	–	23,710
Amortization	–	1,859	–	2,718	–	4,577
Interest on long-term debt	–	–	–	55,561	–	55,561
Other expense (income), net	7,982	312	(3,641)	(10,147)	–	(5,494)
INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST	54,044	129,551	3,283	(70,488)	567	116,957

Year ended August 31, 2004	Radio	Television	Content	Corporate	Eliminations	Consolidated
Revenues	227,868	332,349	112,639	–	(6,052)	666,804
Direct cost of sales, general and administrative expenses	167,826	207,294	196,360	10,970	(6,044)	576,406
Segment profit (loss)	60,042	125,055	(83,721)	(10,970)	(8)	90,398
Depreciation	8,776	8,759	2,800	5,347	–	25,682
Amortization	787	3,687	–	2,802	–	7,276
Interest on long-term debt	–	–	–	55,276	–	55,276
Other expense (income), net	431	(1,047)	818	(5,139)	–	(4,937)
INCOME BEFORE INCOME TAXES AND NON-CONTROLLING INTEREST	50,048	113,656	(87,339)	(69,256)	(8)	7,101

The Corporate segment results represent the incremental cost of Corporate overhead in excess of the amount allocated to the other operating segments.

Gross revenues are derived from the following geographical sources by location of customer as follows:

	2006	2005	2004
Canada	**675,199**	624,130	577,402
United States	**28,798**	25,754	36,020
International	**22,273**	33,185	53,382
	726,270	683,069	666,804

Corus' revenue streams for fiscal 2006 are derived primarily from three areas: advertising (58%), subscriber fees (28%) and license fees (5%) (2005 – 58%, 27% and 9%, respectively).

(b) Segment assets

	2006	2005
Radio	**706,007**	713,427
Television	**916,065**	878,323
Content	**127,999**	145,947
Corporate	**94,836**	191,963
Eliminations	**(2,698)**	(1,296)
	1,842,209	1,928,364

Assets are located primarily within Canada.

(c) Capital expenditures by segment

	2006	2005	2004
Radio	**11,253**	4,733	4,889
Television	**5,254**	7,052	6,843
Content	**3,289**	2,622	3,529
Corporate	**3,802**	4,810	2,160
	23,598	19,217	17,421

Property, plant and equipment are located primarily within Canada.

(d) Goodwill

	2006	2005
Radio	**407,453**	411,516
Television	**326,947**	326,947
Content	**22,338**	22,338
	756,738	760,801

Goodwill is located primarily within Canada.

Note 17. Financial instruments

Fair values

The fair values of financial instruments have been determined as follows:

(i) Current assets and current liabilities

The fair values of financial instruments included in current assets and current liabilities approximate their carrying values due to their short-term nature.

(ii) Investments and other assets

(a) The fair value of publicly traded shares included in this category is determined by the closing market values for those investments.

(b) The fair value of other investments in this category is not determinable.

(iii) Long-term debt

The carrying value of the Company's bank loans approximates their fair value because interest charges under the terms of the bank loans are based upon current Canadian bank prime and bankers' acceptance rates and on U.S. bank base and LIBOR rates.

As at August 31, 2006, the fair value of the Company's Notes was not determinable (2005 – U.S.$403,125).

(iv) Other long-term liabilities

The fair values of other long-term liabilities approximate their carrying values as they are recorded at the net present values of future cash flows, using a discount rate that approximates the Company's weighted average cost of capital.

(v) Derivative financial instruments

The fair values of cross-currency and interest rate swap agreements are based on quotations by the counterparties to the agreements.

The estimated fair values of these agreements are as follows:

	2006		2005	
	Carrying value	**Estimated fair value**	Carrying value	Estimated fair value
Cross-currency agreements	–	–	(158,838)	(242,005)
Interest rate swap agreements	–	**2,012**	–	–

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

Credit risks and concentration

Credit risks associated with the interest rate swap agreements arise from the ability of counterparties to meet the terms of the contracts. In the event of non-performance by the counterparties, the Company's accounting loss would be limited to the net amount that it would be entitled to receive under the contracts and agreements. These risks are mitigated by dealing with major creditworthy financial institutions.

Accounts receivable resulting from advertising and affiliate subscriber fee revenues are not subject to any concentration of credit risk.

Accounts receivable from distribution and licensing of proprietary exploitation rights of feature films and television programs are subject to credit risk. The risk is mitigated because the Company enters into license and distribution contracts with many major international broadcasters and distributors.

Note 18. Earnings (loss) per share

The following is a reconciliation of the numerators and denominators used for the computation of the basic and diluted earnings (loss) per share amounts:

	2006	2005	2004
Net income (loss) for the year (numerator)	**35,471**	71,114	(23,137)
Weighted average number of shares outstanding (denominator)			
Weighted average number of shares outstanding – basic	**42,461**	42,761	42,719
Effect of dilutive securities	**786**	334	–
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING – DILUTED	**43,247**	43,095	42,719

In fiscal 2004, options issued under the Plan were not included in the computation of diluted earnings (loss) per share because the effect of exercising the options is anti-dilutive.

Note 19. Consolidated statements of cash flows

Additional disclosures with respect to the consolidated statements of cash flows are as follows:

(a) Net change in non-cash working capital balances related to operations consists of the following:

	2006	2005	2004
Accounts receivable	**14,509**	(13,055)	13,268
Prepaid expenses and other	**3,435**	(1,794)	1,629
Accounts payable and accrued liabilities	**(28,160)**	6,040	(24,456)
Income taxes payable	**1,546**	(1,497)	(11,753)
Deferred credits	**1,223**	12,354	1,664
Other	**(2,451)**	187	1,253
	(9,898)	2,235	(18,395)

(b) Interest paid, interest received and income taxes paid and classified as operating activities are as follows:

	2006	2005	2004
Interest paid	**61,025**	53,855	55,800
Interest received	**2,643**	2,995	2,135
Income taxes paid	**38,218**	36,279	38,568

Note 20. Foreign exchange gains and losses

The Company has reflected certain gains and losses in its consolidated statements of income (loss) and retained earnings (deficit) as a result of exposure to foreign currency exchange rate fluctuations. A portion of these gains and losses relate to operating activities while other portions are of a financing nature. Foreign exchange gains and losses are reflected in the consolidated financial statements as follows:

	2006	2005	2004
CONSOLIDATED STATEMENTS OF INCOME (LOSS) AND RETAINED EARNINGS (DEFICIT)			
Direct cost of sales, general and administrative expenses	**(511)**	(825)	(1,222)
Other income, net	**487**	(3,338)	(2,245)
TOTAL FOREIGN EXCHANGE GAIN	**(24)**	(4,163)	(3,467)

An analysis of the cumulative translation adjustment shown separately in shareholders' equity is as follows:

BALANCE, AUGUST 31, 2004	(7,038)
Effect of exchange rate fluctuation on translation of net assets of self-sustaining foreign operations	(3,418)
Other	447
BALANCE, AUGUST 31, 2005	(10,009)
Effect of exchange rate fluctuation on translation of net assets of self-sustaining foreign operations	(1,519)
BALANCE, AUGUST 31, 2006	**(11,528)**

Note 21. Reconciliation of Canadian GAAP to U.S. GAAP

The consolidated financial statements of the Company are prepared in Canadian dollars in accordance with Canadian GAAP. The following adjustments and disclosures would be required in order to present these consolidated financial statements in accordance with U.S. GAAP:

(a) Reconciliation to U.S. GAAP

	2006	2005	2004
NET INCOME (LOSS) USING CANADIAN GAAP	**35,471**	71,114	(23,137)
Add (deduct) adjustments for			
Deferred charges (i)	**752**	1,858	4,474
Other	**447**	–	–
Income tax effect of adjustments	**(291)**	(764)	(1,789)
NET INCOME (LOSS) USING U.S. GAAP	**36,379**	72,208	(20,452)
Add (deduct) adjustments for changes in			
Unrealized gains on investments classified as available for sale, net of tax (ii)	**1,235**	1,864	640
Unrealized gain (loss) on derivative contracts (iii)	**69,847**	(41,634)	(2,420)
Unrealized foreign exchange loss on translation of self-sustaining foreign operations	**(1,519)**	(3,418)	(1,949)
COMPREHENSIVE INCOME (LOSS) USING U.S. GAAP	**105,942**	29,020	(24,181)
NET INCOME (LOSS) PER SHARE USING U.S. GAAP			
Basic	**$0.86**	$1.69	$(0.48)
Diluted	**0.84**	1.68	(0.48)
COMPREHENSIVE INCOME (LOSS) PER SHARE USING U.S. GAAP			
Basic	**$2.50**	$0.68	$(0.57)
Diluted	**2.45**	0.67	(0.57)

Balance sheet items using U.S. GAAP

	2006		2005	
	Canadian GAAP	**U.S. GAAP**	Canadian GAAP	U.S. GAAP
Investments and other assets (ii)	**29,642**	**31,166**	36,886	34,391
Deferred charges (i)	**5,655**	**5,300**	15,560	14,557
Broadcast licenses and goodwill (iii)	**1,261,950**	**1,270,235**	1,269,853	1,278,138
Deferred credits (iii)	**28,691**	**28,691**	195,789	278,956
Future tax liability	**80,447**	**84,070**	147,744	134,972
Non-controlling interest	**11,379**	**11,275**	11,227	11,227
Accumulated other comprehensive loss	**–**	**(10,190)**	–	(80,200)
Other components of shareholders' equity	**917,498**	**933,623**	930,262	944,854

The cumulative effect of these adjustments on shareholders' equity is as follows:

	2006	2005
Other components of shareholders' equity		
Deferred charges (i), (iii)	**(161)**	(622)
Equity in earnings of investees (iv)	**4,758**	4,758
Cumulative translation adjustment	**11,528**	10,456
Accumulated other comprehensive loss		
Unrealized losses on investments (ii)	**(312)**	(1,547)
Unrealized gain (loss) on derivative contracts (iii)	**1,650**	(68,197)
Unrealized foreign exchange loss on translation of self-sustaining foreign operations	**(11,528)**	(10,456)
TOTAL CUMULATIVE EFFECT OF ADJUSTMENTS ON SHAREHOLDERS' EQUITY	**5,935**	(65,608)

Areas of material difference between Canadian GAAP and U.S. GAAP and their impact on the consolidated financial statements are as follows:

(i) Deferred charges

Start-up costs of new specialty programming networks and costs associated with reformatting radio stations are deferred and amortized under Canadian GAAP. Under U.S. GAAP, these costs are expensed as incurred.

(ii) Unrealized gains (losses) on investments

Under U.S. GAAP, equity securities having a readily determinable fair value and not classified as trading securities are classified as "available-for-sale securities" and reported at fair value, with unrealized gains and losses included in comprehensive income (loss) and reported as a separate component of shareholders' equity, net of related deferred income taxes. Under Canadian GAAP, these investments are carried at cost and written down only when there is evidence that a decline in value that is other-than-temporary has occurred. The Company has determined that the decline in fair value is not other-than-temporary, based on the financial condition of the issue and the fact that the Company has the intent and ability to retain its investment in the issuer for a period of time sufficient to allow for an anticipated recovery in market value. The Company has considered evidence, such as industry analyst reports, that supports this conclusion.

(iii) Derivative instruments and hedging activities

Under U.S. GAAP, all derivative instruments are to be recorded on the consolidated balance sheets at fair value. Derivatives that are not hedges must be adjusted to fair value through income. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments through income (loss), or deferred in other comprehensive income (loss) until the hedged item is recognized in income (loss).

(iv) Equity in earnings of investees

Under Canadian GAAP, the investments in Nelvana's 20% interest in TELETOON in fiscal 2001 and Western International Communications Ltd. ("WIC") in fiscal 2000 were accounted for using the cost method of accounting until CRTC approval was received for the transactions. When the Company received CRTC approval, the amount in the accounts under the cost method became the basis for the purchase price allocation and equity accounting commenced. Under U.S. GAAP, equity accounting for the investments is used from the date the Company first acquired shares in Nelvana and WIC.

(b) Stock-based compensation

For stock options granted to employees after August 31, 2003, the Company has adopted the fair value method of accounting. The Company applies Accounting Principles Board Opinion No. 25 in accounting for stock options granted to employees and officers prior to September 1, 2003. Had compensation expense been determined on the basis of the estimated fair values of the options granted prior to September 1, 2003, net income for the year ended August 31, 2006, would have decreased by $1,270 to $35,109 or $0.83 per share (2005 – net income would have decreased by $4,198 to $68,010, or $1.59 per share; 2004 – net loss would have increased by $10,160 to $30,612, or $0.72 per share). The assumptions used to determine fair value are consistent with those disclosed in note 14.

Note 22. Government financing and assistance

Revenues include $2,845 (2005 – $2,053; 2004 – $2,309) of production financing obtained from government programs. This financing provides a supplement to a production series' Canadian license fees and is not repayable. As well, revenues include $939 (2005 – $1,011; 2004 – $1,080) of government grants relating to the marketing of books in both Canada and international markets. The majority of the grants is repayable if the average profit margin for the three-year period following receipt of the funds equals or is greater than 10%.

Note 23. Commitments, contingencies and guarantees

The Company and its subsidiaries are involved in litigation matters arising out of the ordinary course and conduct of its business. Although such matters cannot be predicted with certainty, management does not consider the Company's exposure to litigation to be material to these consolidated financial statements.

The Company has various long-term operating lease agreements for the use of facilities and equipment in each of the next five years and thereafter as follows:

2007	21,701
2008	19,451
2009	13,778
2010	11,511
2011	8,366
Thereafter	24,065
	98,872

Rental expenses recognized in direct cost of sales, general and administrative expenses totalled approximately $13,070 (2005 – $13,411; 2004 – $11,549).

The Company has entered into various agreements for the right to broadcast or distribute certain film and television programs in the future. These agreements, which range in term from one to five years, generally commit the Company to acquire specific films and television programs or certain levels of future productions. The acquisition of these broadcast and distribution rights is contingent on the actual delivery of the productions. Management estimates that these agreements will result in future program and film expenditures of approximately $145,787.

Generally, it is not the Company's policy to issue guarantees to non-controlled affiliates or third parties, with limited exceptions.

Many of the Company's agreements, specifically those related to acquisitions and dispositions of business assets, included indemnification provisions where the Company may be required to make payments to a vendor or purchaser for breach of fundamental representation and warranty terms in the agreements with respect to matters such as corporate status, title of assets, environmental issues, consents to transfer, employment matters, litigation, taxes payable and other potential material liabilities. The maximum potential amount of future payments that the Company could be required to make under these indemnification provisions is not reasonably quantifiable as certain indemnifications are not subject to a monetary limitation. As at August 31, 2006, management believed there was only a remote possibility that the indemnification provisions would require any material cash payment.

The Company indemnifies its directors and officers against any and all claims or losses reasonably incurred in the performance of their service to the Company to the extent permitted by law. The Company has acquired and maintains liability insurance for directors and officers of the Company and its subsidiaries.

In fiscal 2005, Corus and a related party entered into a contra agreement for the exchange of $2,500 in media time annually for a five-year period. The Company's obligation will be settled with a combination of radio and television spots. In addition, the Company will provide a total of $1,000 annually in direct response promotions for the related party.

Note 24. Related party transactions

The Company has transacted business in the normal course with entities that are subject to common voting control and with entities over which the Company exercises significant influence. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties and having normal trade terms.

During the year, the Company received cable service subscriber, programming and advertising fees of $92,837 (2005 – $94,633; 2004 – $92,279), production and distribution revenue of $2,853 (2005 – $2,463; 2004 – $3,055) and administrative and other fees of $5,968 (2005 – $6,561; 2004 – $5,506) from related parties. In addition, the Company paid cable and satellite system distribution access fees of $4,441 (2005 – $4,800; 2004 – $4,546) and administrative and other fees of $2,106 (2005 – $2,007; 2004 – $1,486) to related parties. As at August 31, 2006, the Company had $17,446 (2005 – $20,077) receivable from related parties.

The Company provided related parties with radio and television spots in return for television advertising. No monetary consideration was exchanged for these transactions and no amounts were recorded in the accounts.

In fiscal 2005, Corus acquired a cable advertising business for $931 in cash from Shaw Communications Inc., a company subject to common voting control.

Included in accounts receivable (note 5), other investments (note 6(b)) and share capital (note 14) are loans of $6,074 (2005 – $6,438) made to certain executive officers of the Company for housing or investment purposes. The loans are collateralized by charges on the officers' personal residences and/or by related investment. The loans are non-interest bearing and are due between April 2, 2007, and October 31, 2022.

Note 25. Employee future benefits

The Company has a defined contribution plan for qualifying full-time employees. Under the plan, the Company contributes 5% of an employee's earnings, not exceeding the limits set by the *Income Tax Act* (Canada). The amount contributed in 2006 related to the defined contribution plan was $6,016 (2005 – $5,527; 2004 – $4,768). The amount contributed is approximately the same as the expense included in the consolidated statements of income (loss) and retained earnings (deficit).

Note 26. Subsequent events

On July 13, 2006, Corus and Astral Media announced that they had reached an agreement to purchase the remaining 20% of TELETOON network from Cookie Jar Entertainment. The deal, which received CRTC approval on August 28, 2006, will give both Corus and Astral Media a 50% ownership in the network. The purchase price for Cookie Jar Entertainment's 20% stake is approximately $96,000. The transaction was completed subsequent to the end of fiscal 2006.

On September 12, 2006, the Company announced a new organizational structure for its Television and Content divisions, including relocating the Movie Central operation from Edmonton to Toronto. The changes related to this relocation will result in severance and other restructuring expenses of approximately $5,000 to be recorded in the first quarter of fiscal 2007.

On October 2, 2006, the Company announced that it has reached an agreement to buy two radio stations from CanWest MediaWorks. The transaction is subject to approval by the CRTC and the acquisition price for the two stations is approximately $15,000.

Note 27. Comparative consolidated financial statements

The comparative consolidated financial statements have been reclassified from statements previously presented to conform to the presentation of the 2006 consolidated financial statements.

Officers

Pierre Arcand
Montréal, Québec
President, Québec Radio
Corus Entertainment Inc.

Hal Blackadar
Oakville, Ontario
Vice President, Human Resources
Corus Entertainment Inc.

John M. Cassaday
Toronto, Ontario
President and Chief Executive Officer
Corus Entertainment Inc.

Scott Dyer
Toronto, Ontario
Executive Vice President, General Manager
Corus Kids Television
Corus Entertainment Inc.

John P. Hayes
Toronto, Ontario
President, Radio
Corus Entertainment Inc.

Gary Maavara
Toronto, Ontario
Vice President, General Counsel
Corus Entertainment Inc.

Doug Murphy
Toronto, Ontario
President
Nelvana Enterprises
Corus Entertainment Inc.

Thomas C. Peddie FCA
Toronto, Ontario
Senior Vice President and Chief Financial Officer
Corus Entertainment Inc.

John R. (Jack) Perraton
Calgary, Alberta
Corporate Secretary
Corus Entertainment Inc.
Senior Partner, Perraton Law

Paul W. Robertson
Toronto, Ontario
President, Television
Corus Entertainment Inc.

Heather A. Shaw
Calgary, Alberta
Executive Chair
Corus Entertainment Inc.

David Spence CA
Markham, Ontario
Vice President, Controller
Corus Entertainment Inc.

Board of Directors

Pierre Béland
Montréal, Québec
Mr. Béland is President of Métromédia Plus, a Montréal-based transit advertising company. Prior to this, he held the position of President of Corus Radio Québec, Métromédia Broadcasting and Télémedia Québec. Mr. Béland is a member of the Québec Bar Association and is also involved with a number of charitable organizations.
Member of the Human Resources Committee

John M. Cassaday
Toronto, Ontario
Mr. Cassaday is President and CEO of Corus Entertainment Inc., a position he has held since the creation of Corus in September 1999. Previously, Mr. Cassaday was President, Shaw Media. He is a director of Manulife Financial and Sysco Corporation.
Member of the Executive Committee

Dennis Erker
Edmonton, Alberta
Mr. Erker is a partner in the Fairley Erker Advisory Group, a financial and estate planning company. Mr. Erker is the Chairman of Canadian Hydro Developers Inc., a director of First Canadian Insurance Company and Millennium Insurance Company, as well as a director of several charitable organizations.
*Member of the Executive Committee and Chair of the Corporate Governance Committee**

Carolyn Hursh
Calgary, Alberta
Ms. Hursh is the Chair of James Richardson & Sons, Limited, a family-owned and -managed conglomerate established in 1857, whose subsidiaries include: Pioneer Grain Limited, Canbra Foods Limited, Tundra Oil & Gas Limited, Lombard Realty Limited, Richardson Financial Partners Limited and Richardson Capital Limited. Ms. Hursh is also Chair of the Max Bell Foundation.
Member of the Corporate Governance Committee

Wendy A. Leaney
Toronto, Ontario
Ms. Leaney is President of Wyoming Associates Ltd., a private investment and consulting firm based in Toronto. Prior to that, Ms. Leaney was Managing Director and Co-Head, Global Communications Finance, for TD Securities Inc. Ms. Leaney serves on the board of Canadian Western Bank. From 2001 to 2005, Ms. Leaney also served on the board of Call-Net Enterprises.
*Member of the Audit Committee**

Ronald D. Rogers
Calgary, Alberta
Mr. Rogers retired as Senior Vice President and Chief Financial Officer of Shaw Communications Inc. in August of 2004. Mr. Rogers serves as a trustee for The Brick Group Income Fund, Transforce Income Fund, Pizza Pizza Royalty Income Fund and Parkland Income Fund.
*Member of the Human Resources Committee and Chair of the Audit Committee**

Catherine Roozen
Edmonton, Alberta
Ms. Roozen is Director and Corporate Secretary of Cathton Holdings Ltd. and the Allard Foundation, positions she has held since 1981. Ms. Roozen serves on the Alberta Cancer Board, as well as on a number of charitable boards.
Member of the Audit and Corporate Governance Committees

Terrance Royer
Calgary, Alberta
Mr. Royer is Chairman of Royco Hotels Ltd., a hotel management company. Mr. Royer retired as Executive Vice Chairman of the Calgary-based Royal Host REIT in December of 2005. He is also past President, CEO and founder of Royal Host Corp., a hotel and resort ownership, franchising and management company. Mr. Royer served on the board of Royal Host REIT from January 1998 to June 2006. Mr. Royer is Chairman Emeritus of the University of Lethbridge (Chairman from January 2001–July 2006), Chairman of the Alberta "Access to the Future Fund" for post-secondary institutions in Alberta, and a trustee for the Alberta Ingenuity Fund.
*Member of the Executive Committee and Chair of the Human Resources Committee**
Serves as lead independent director for Corus Entertainment Inc.

Heather A. Shaw
Calgary, Alberta
Ms. Shaw is the Executive Chair of Corus Entertainment Inc., and has held the position since its inception in September 1999. Ms. Shaw is a director for the Calgary Health Trust and Viewtrak Technologies Inc., a member of the Richard Ivey School of Business Advisory Board and a past director of Shaw Communications Inc. Ms. Shaw also sits on a number of charitable boards.
Chair of the Board and the Executive Committee

Julie M. Shaw
Calgary, Alberta
Ms. Shaw is the Vice President, Facilities, Design and Management, Shaw Communications Inc., and Secretary of the Shaw Foundation, a philanthropic organization.

* On October 11, 2006, Ronald Rogers was, on an interim basis, no longer considered by the Board to be an independent and unrelated director. As a result, Terrance Royer, an independent director, replaced Rogers on the Audit Committee and Wendy Leaney (also an independent director) was appointed Chair of the Audit Committee. Dennis Erker, an independent director, replaced Rogers on the Human Resources Committee.

Corus Entertainment Inc.

Stock listings
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NYSE: CJR

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Corus Entertainment's annual report, Annual Information Form, quarterly reports, press releases and other relevant investor relations information are available in the "Investor Information" section of the Corus Entertainment website (www.corusent.com).

Auditors
Ernst & Young LLP

Primary bankers
The Toronto-Dominion Bank

Transfer agent
CIBC Mellon Trust Company
Toronto, Ontario
Telephone: 1.800.387.0825
Facsimile: 416.643.5501
www.cibcmellon.com

Mellon Investor Services
Ridgefield, New Jersey
Telephone: 1.800.387.0825
www.cibcmellon.com

Corporate governance
Information concerning Corus Entertainment's Corporate Governance Practices is contained in the Management Information Circular and is also available by contacting the Company, or by visiting the "Investor Information" section of the Company's website (www.corusent.com).

Further information
Financial analysts, portfolio managers, other investors and interested parties may contact the Company at 416.642.3770 or visit the Company's website, www.corusent.com.

To receive additional copies of Corus Entertainment's annual report, please fax your request to the Vice President, Communications at 416.642.3779.

Vous pouvez obtenir la version française du present rapport en communiquant par télécopieur avec le vice-président des communications, au 416.642.3779.

Annual meeting
January 10, 2007
2 p.m. MT
Sheraton Suites Calgary Eau Claire
255 Barclay Parade S.W.
Calgary, Alberta
Canada

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Television

Specialty networks
YTV – 100%
W Network – 100%
Treehouse – 100%
CMT Canada – 80%
Discovery Kids Canada – 53.6%
The Documentary Channel – 53%
SCREAM – 51%
Telelatino – 50.5%
TELETOON – 40%*
Food Network – 20%

Premium networks
Movie Central – 100%
Encore – 100%

Other
Corus Custom Networks – 100%
Max Trax – 100%
CHEX TV – Durham – 100%
CHEX Television – Peterborough – 100%
CKWS TV – Kingston – 100%

Radio

British Columbia
Vancouver
AM730 Traffic (CHMJ) – AM
AM 980 CKNW (CKNW) – AM
Classic Rock 101 (CFMI) – FM
99.3 The FOX (CFOX) – FM

Alberta
Calgary
AM 770 CHQR (CHQR) – AM
Q107 (CFGQ) – FM
Country 105 (CKRY) – FM

Edmonton
630 CHED (CHED) – AM
Cool 880 (CHQT) – AM
CISN Country 103.9 (CISN) – FM
92.5 JOE FM (CKNG) – FM

Manitoba
Winnipeg
CJOB 68 (CJOB) – AM
Power 97 (CJKR) – FM

Ontario
Barrie
The New CHAY 93.1 (CHAY) – FM
B101 (CIQB) – FM

Cambridge
107.5 DAVE-FM (CJDV) – FM

Collingwood
95.1 The Peak FM (CKCB) – FM

Cornwall
AM 1220 (CJUL) – AM
Variety 104.5 (CFLG) – FM
Classic Rock 101.9 (CJSS) – FM

Guelph
1460 CJOY (CJOY) – AM
Magic 106.1 (CIMJ) – FM

Hamilton
AM900 CHML (CHML) – AM
The New Country 95.3 (CING) – FM
Y108 (CJXY) – FM

Kingston
Oldies 960 (CFFX) – AM
96.3 JOE FM (CFMK) – FM

London
AM980 CFPL (CFPL) – AM
The New 1031 Fresh FM (CFHK) – FM
FM96 (CFPL) – FM

Peterborough
980Kruz (CKRU) – AM
101.5 The Wolf (CKWF) – FM

Toronto
AM640 Toronto Radio (CFMJ) – AM
102.1 the Edge (CFNY) – FM
Q107 (CILQ) – FM

Woodstock
Classic Rock 103.9 The Hawk (CKDK) – FM

Québec
Gatineau
CJRC 1150 (CJRC) – AM

Montmagny
CFEL 102,1 FM (CFEL) – FM

Montréal
Info690 (CINF) – AM
940 Montreal (CINW) – AM
CKAC 730 AM (CKAC) – AM
Q92 Montreal's 92.5 (CFQR) – FM
98,5 FM (CHMP) – FM
CKOI 96,9 (CKOI) – FM

Québec City
Info800 (CHRC) – AM
102,9 CFOM (CFOM) – FM

Saguenay
CKRS 590 AM (CKRS) – AM

Saint-Jérôme
CIME FM (CIME) – FM

Sherbrooke
CHLT 630 AM (CHLT) – AM
CKTS 900 (CKTS) – AM

Trois-Rivières
CHLN 550 AM (CHLN) – AM

Content

Branded animation
Nelvana Limited

Publishing
Kids Can Press

Canadian broadcast, branded animation and publishing assets as of August 31, 2006.

Percentages reflect equity position.

* *Corus Entertainment's ownership in TELETOON increased to 50% in the first quarter of fiscal 2007.*

Concept and Design: **THE WORKS** www.worksdesign.com Printing: Printed at **CJ Graphics** in Toronto, by Xerox Canada

MOVIE
CENTRAL

CKNW
NEWS TALK SPORTS
AM980

W
NETWORK

Country 105
CKRY FM

KIDS
CAN
PRESS

102.1 the edge

cisn
COUNTRY
103.9FM

YTV

Q107
Classic Rock

98,5 fm
Le nouveau FM parlé de Montréal

SCREAM
thrillers suspense horror

tln
telelatino

Discovery
KIDS

MANITOBA'S INFORMATION
CJOB 68
SUPERSTATION

NELVANA
A CORUS ENTERTAINMENT COMPANY

AM 630
NEWS • TALK • SPORTS
CHED

ckoi
.com
96,9 FM

CMT

TELETOON

Treehouse

ENTERTAINMENT

Fair play

How we play is just as important as what we accomplish. Our Core Values define our corporate culture, unite us and guide us in the work we do. As the old adage goes, it's not just whether you win or lose, but how you play the game.

Our Core Values:

Knowledge
We believe in continuous learning and the sharing of our insights and ideas

Initiative
We empower employees to make great things happen

Innovation
We are committed to creative thinking that leads to breakthrough ideas and superior results

Teamwork
We believe the greatest value is realized when we work together

Accountability
We do what we say we'll do – no excuses

www.corusent.com